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LABOR POLICY AND LABOR
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P R E F A C E

WHAT are the most important criteria now being used in the making of wage policies? Have the divergent wage policies of employers and trade unions created an urgent need for a national wage policy? If such a policy were in existence, could it be enforced? How long can the powerful forces of organized management and organized labor continue their struggle for dominance in the American economy without destroying the very economy which they seek to control?

These are but a few of the questions considered at the Semi-annual Meeting (Sixty-sixth year) of the Academy of Political Science held at the Hotel Astor in New York City on April 11, 1946. In this issue of the PROCEEDINGS the Academy presents the variant opinions of its guest speakers, each of whom has long been a student of "Labor Policy and Labor Relations". It does so—in accordance with its traditions—without endorsing any specific course of action. But, at a time when the Congress is debating legislation designed to curb industrial disputes, the testimony of experts will certainly stimulate that public discussion which should ever precede democratic decisions.

The Academy takes this opportunity to express its gratitude to the participants in the recent meeting and to the members of the Committee on Program and Arrangements: Leo Wolman (Chairman), Miss Ethel Warner (Director), Paul F. Brissenden, W. Randolph Burgess, Nicholas Murray Butler, C. S. Ching, Frederic R. Coudert, John W. Davis, Lewis W. Douglas, William Green, Pierre Jay, Nicholas Kelley, Grayson L. Kirk, Thomas W. Lamont, Russell C. Leffingwell, Sam A. Lewisohn, Henry R. Luce, Charles Merz, Frederick C. Mills, Wesley C. Mitchell, Shepard Morgan, William L. Ransom, George Roberts, George A. Sloan, Mark Starr, Harold E. Stassen, Arthur Hays Sulzberger, Eliot Wadsworth.

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PART I

LABOR POLICIES AND LABOR CONDITIONS

INTRODUCTION *

WILLIAM L. RANSOM, *Presiding*
Trustee of The Academy of Political Science

I CALL to order the Semi-annual Meeting of the Academy of Political Science in its sixty-sixth year.

In behalf of the Academy, trustees and members, I welcome you all most heartily to this session and to the further sessions of this afternoon and this evening.

This meeting of the Academy is given over to the most important and most absorbing topic, I believe, in the category of our home front problems today and tomorrow, that of "Labor Policies and Labor Relations".

The Academy, over many years, has endeavored to select for its meetings topics on which it can make an informed contribution to the public opinion of its time. I need not remind you that the Academy does not sponsor particular views. Our meetings do not pass resolutions or come to conclusions or make recommendations. The purpose is only to bring before our meetings, and then, through our published PROCEEDINGS, before the great number of our members and readers, such material as will be of assistance in forming a reasoned opinion upon important issues.

With respect to our speakers, we choose them because we recognize that they have a competence and an authority and a fairness in speaking upon the subjects assigned. I am sure that, in behalf of all of you, I am warranted in extending the hearty thanks of the Academy and this audience to our speak-

* Opening remarks at the First Session of the Semi-annual Meeting.

ers of the morning; I think we all realize that this is a most difficult time for men to turn aside from their absorbing tasks in order to deliver addresses under what might seem to be academic auspices. We are grateful to them for their willingness to be here this morning.

I am sorry to have to announce that Mr. John W. Scoville, who was to have been the fourth speaker on our program, is ill and will not be here, but we are honored and pleased that Dr. Broadus Mitchell, of the Research Department of the International Ladies' Garment Workers' Union of the American Federation of Labor, is here and has consented to take part in the discussion under the ten-minute rule after we have listened to the three principal papers or addresses that will be presented.

Our first speaker this morning is an old friend in these meetings, one to whom we instinctively and often turn when matters in the field of labor relations are under discussion. I have the honor to present Professor Sumner H. Slichter, Lamont University Professor at Harvard University.

WAGE POLICIES

SUMNER H. SLICHTER

Lamont University Professor, Harvard University

I

WITH the rise of large business organizations and trade unions the structure and behavior of wages are becoming more and more the result of policy-making.¹

How are wage policies made? What are their objectives? Are they based upon adequate information? What criteria are employed in making wage policies? Do wage policies get labor distributed so as to maximize the national product? Do they affect the volume of investment and the volume of employment? Are they useful in solving the problems of the economy? Or do they create more problems than they solve—in other words, are wage policies themselves a problem? Do the diverse purposes and diverse results of wage policies of employers and trade unions create the need for a national wage policy? If a national wage policy were in existence, could it be enforced? I shall not have time to discuss all of these questions, but I shall endeavor to direct your attention to some of the basic issues involved.

II

Let us look briefly at the wage policies of employers. Bidding for labor among employers has been more active than most economists have assumed. The picture of a helpless wage-earner dealing with a large employer, frequently pictured by economists, is not easily reconciled with the wage and price movements of the last century. Indeed, technological progress has produced a far

¹ Individuals may have policies no less than organizations. For example, they may buy or sell in accordance with carefully made plans. Individuals more than organizations, however, are likely to act on the spur of the moment rather than in accordance with a plan. Organizations must act through representatives and must supply them with rules and instructions. These rules and instructions represent policies.

greater rise in wages than it has a fall in the prices of commodities. Between 1840 and 1940, hourly earnings of nonagricultural workers rose about ninefold. The index of wholesale prices rose about 10 per cent. Since this index has an upward bias, the actual movement of prices was undoubtedly downward. The rapid rise in wages relative to prices happened during a period when trade unions were weak in most industries. One might be tempted to explain the strong bargaining position of labor by the fact that over half of nonagricultural employees are working with firms having less than 100 employees and over one third with firms having less than 50 employees. This explanation, however, encounters the difficulty that large firms usually pay more than small ones.

The wage policies of employers are widely diverse. The most important distinctions are: (1) between the employers who elect to pay above the market and those who pay below it; and (2) between employers who pursue the policy of leading in wage movements and those who pursue the policy of following. Some employers pay above the market either to attract the best labor in the community or to keep out unions. Other employers may endeavor to trade on the availability of limited supplies of very cheap labor—persons who have only limited mobility (wives whose husbands work in the community), persons who do not care to go very far to work, persons who have very limited knowledge of English. The employers who do this may have as their chief stock-in-trade knowledge of some foreign language rather than managerial skill. An employer who lacks capital and credit is likely to seek an opportunity to trade on the sloping supply curve of labor. The "sweat shop" is essentially a device for this purpose. Some employers may pursue the policy of leading in wage movements; others of following closely certain leaders in either their own industry or other industries. In this way the wage decisions of a few leaders (a Harry Sinclair or a Weir) may affect wages throughout many industries.

There are various specific matters on which the wage policies of employers differ. Some employers may hire inexperienced people at considerably above the market and develop their own skilled people, paying them below the market for skilled workers. There are many variations in the geographical aspects of

wage policies. Some multiple-plant employers may base wages upon community rates; others may pay the same rate in all plants. Some employers may pursue one policy with some types of labor and another policy with other types of labor—for example, pay the community common-labor rate, but a uniform skilled-labor rate.

What kind of employers pursue what kind of policies? If one uses the straight-time hourly earnings of common labor as a rough index of the relative wage rates in different industries, one finds that wages tend to be high where the ratio of labor cost to selling prices is low, where horsepower per worker is high, and where profits are large. Wages tend to be low where labor costs are a high proportion of sales income and where the proportion of women employed in the industry is high. Indeed, the highest correlation of all is between low wages for males and a high proportion of women workers in the industry. In general, it seems to be true that the smaller the item of cost, the less time and attention it commands from management. Consequently, liberal wage policies are generally found where labor costs are relatively unimportant. Likewise, managements are less inclined to worry about costs when profits are high. Consequently, liberal wage policies seem to accompany high profits.

In some industries there seems to be no difference between the level of wages among small enterprises and large enterprises. In many industries, however, large concerns pay higher wages than small ones. No industry has yet been discovered in which small concerns as a general rule pay higher wages than large ones. There are several explanations for the tendency of large concerns to pay more than small ones. One explanation is that it takes a higher rate to attract the requisite number of people to one place. This reason does not apply, however, where the employees are scattered in many small plants. Large concerns usually have more supervision and also more equipment per employee than small ones. It does not pay to give expensive supervision or expensive equipment to inefficient employees. Consequently, the greater the amount of supervision and equipment per employee, the higher the wage which management is likely to pay.

III

May unions be said to have wage policies? Some people doubt it. Nevertheless, a union must decide whether to ask one price rather than another. It presumably has some reason for not being content with less and for not insisting upon more. This decision between alternatives is a policy decision.

How do unions make wage policies? There has been little exploration of this subject. Obviously, the million members of the Automobile Workers' Union, or the half million members of the United Mine Workers cannot set a wage policy any more than the thousands of stockholders of General Motors can put a price on the Chevrolet. Precise formulation of the union's wage policy must be the work of officers or of a committee. This does not mean that the rank and file are without influence. In many cases endorsement of demands or ratification of settlement by the rank and file is required. In general the influence of the rank and file is greater when each local is free to make its own wage policy than when the union has a national wage policy. The rank and file which have influence are usually a small fraction of the total—the 10 per cent or so who take an active interest in the affairs of the organization. In this respect unions are no different from most other organizations—the active and keenly interested part of the membership is a small part of the whole. When a union formulates a national wage policy, locals may be invited to send in suggestions. The locals seek to stimulate the national officers to make stiff demands. Consequently, they usually suggest far more than the officers would consider asking.

The leaders who make union wage policies seek to win the approval of the members, but this does not necessarily mean that the leaders should be described as *representing* specific ideas held by the rank and file. That would imply that most of the members have given careful consideration to various alternatives and have developed a well-devised scale of preferences. As I have indicated above, however, the great majority of union members lack well-considered ideas concerning just what things they wish and in what quantities. Within a wide range of alternatives they are usually willing to accept the objectives recommended to them by their leaders, particularly if the leaders are strong and colorful and have won a reputation in times past as valiant

fighters for the rank and file. If the leaders undertake to represent any group of union members in selecting wage policies (or other policies), it is not likely to be some sort of "average" members but a small aggressive minority which has quite definite and firmly held preferences.

The wide range of objectives which the union rank and file are usually ready to approve emphasizes the importance of the personal equation in the choice of policies. One would not expect the policies of the United Mine Workers in a given situation to be the same under a John Mitchell as under a John L. Lewis—although the policies of each leader would probably command heavy support from most of the members. The temperament of the leader, his aggressiveness, his willingness to take chances or his disposition to be cautious, the relative importance which he attaches to the short-run or long-run consequences of policies, his sense of responsibility to the public, his ambition to advance within the labor movement, all influence the selection of policies. Quite naturally the leader who is eager to advance toward a place of greater power and prominence in the labor movement is likely to select policies with that end in view. These will not necessarily be the policies which will maximize the present value of the future incomes of union members. Rivalries between unions and union leaders may produce competition in toughness between two unions. An ambitious and publicity-loving leader may fight hard to get a larger increase than some other leader regardless of differences between the two industries and regardless of the long-run consequences to the rank and file.

Despite the influence of the ambitions and rivalries of leaders upon union policies, the usual situation does not appear to have been that the leaders have been too aggressive for the rank and file. On the contrary, when leaders have been displaced or when segments of unions have broken away from the parent organization, the revolt has almost invariably been against officers who were too conservative and slow-moving. For example, between 1866 and 1939 there were 57 new national unions formed by revolt. Some passed out of existence and many rejoined the parent organization. In 20 cases, however, the new national union still exists. Almost all of these revolts were against too conservative leadership. I realize that this evidence does not

prove that officers are usually less aggressive than the rank and file desire. There are two shortcomings to this evidence. One is the fact that a secession is likely to be the act of a minority which is unable to win control of the union. The other is that conservative and cautious leadership is the very kind which the rank and file find easiest to defeat. Leaders who are too aggressive for the members are precisely the ones who are hardest to displace.

V

What determines the characteristics of union wage policies? Do industrial unions tend to have different wage policies from craft unions? Do new unions tend to have different wage policies from long-established unions? What determines the relative importance of short-run and long-run considerations in the formation of union policies? I do not have time to discuss these questions, but I wish to comment briefly upon some of the determinants of the magnitude of wage demands made by unions.

The higher the wage demanded, the greater is the likelihood that the union will have to strike in order to get it. The higher the wage demanded, the greater also is the likelihood that the employment of union members will be unfavorably affected. Finally, the higher the proposed scale above the compensation for work of similar skill and responsibility, the greater is the likelihood that nonunion employers may be able to defeat organizing drives by paying their people above the market though below the union scale. How are union wage demands influenced (1) by the willingness of employers to fight, (2) by the effect of a given wage increase upon the future employment opportunities of the union members, (3) by the effect of a wage increase upon the future bargaining power of the union?

I believe that the first and third of these limits are important influences upon policy, but that the second is usually unimportant. Strikes are very costly to the union members—far more so than to employers. Hence unions cannot afford long or frequent strikes in order to reduce the employer's willingness to resist. Suppose, for example, that the union and the employer are 5 per cent apart in their demands and offers. Twenty days' work will be required to make up the loss to the union members

from one day of strike. This assumes that the union wins its entire demand. A year and three-quarters of steady work would be required to make up for the loss of pay from a strike of one month (22 working days) if the employer's offer were only 5 per cent below the union's demand. An occasional strike, of course, may be necessary in order to stimulate employers to make good offers. Since overhead and profits in most companies are much less than non-supervisory payrolls, the drop in profits due to strikes will ordinarily be only one-fifth to one-tenth the loss in payrolls.

The effect of a wage increase upon the employment opportunities of union members is surprisingly unimportant. Let us suppose, for example, that the miners' union wins wage demands which put the industry at a serious competitive disadvantage and which may be expected to reduce employment in the industry by one fifth within five years. That might be a hardship upon the sons of some miners who would be deprived of the opportunity to enter the industry. In view of the usual resignation rate in the industry, however, such a shrinkage in the work force could occur without forcing the layoff of many men. So long as the resignation rate in most industries is high enough to reduce the force by half in five years, unions cannot afford to be much interested in the *mere* effect of their wage policies upon employment.

Quite different is the case, however, when the rise of wages reduces the capacity of the unions to organize nonunion plants so that the union proportion of the industry shrinks. In that event, success of the union in forcing a rise in wages today would reduce its bargaining power tomorrow. In other words, the union would be dissipating its bargaining power—using it wastefully instead of conserving it. Even the older members, who expect soon to retire and who might not be interested, therefore, in conserving the bargaining power of the union, are not likely to support policies which give them immediate gains by undermining the strength of the union.

When wage increases are in the air and are receiving much publicity (as at present, for example), the usual considerations may have little influence upon the decisions of union officers. They may consider it necessary to insist upon the prevailing increase regardless of the effect upon the future bargaining pros-

pects of the union, the future employment outlook for the members, or even the willingness of the employers to fight. The prestige of unions and leaders is at stake. When it is, the long-run interests of the members or of the union may carry little weight.

VI

Unions use certain criteria in support of their wage demands. These criteria do not determine how much the union demands; they simply determine how the union justifies its demand. Let us see what some of them are.

When the cost of living is rising, unions ask for wage increases to offset the rise in the cost of living. This seems like a reasonable demand, for it is merely an attempt to avert a drop in real wages. Nevertheless, if all groups attempted to prevent a drop in real wages by raising money wages as the cost of living increased, their efforts would fail. A rise in the cost of living means that the demand for goods is outrunning the supply. Increases in wages would aggravate the difficulty rather than correct it—they would make demand outrun supply more than ever and this would make the cost of living continue to rise. The remedy for a rising cost of living is not higher wages but more efficiency.

Another basis for demanding higher wages is an increase in productivity. Advances in the *general* wage level must, in the long run, be pretty completely the result of increases in productivity, because there is little opportunity for labor to gain by increasing its share in the national product at the expense of property. Only about one fifth of the national income goes to property. Gains in productivity which are the result of improvements in the skill or effort of workers are, of course, a sound basis for wage increases. Quite different, however, is the case of increases in productivity resulting from technological progress. One's first reaction might be that technological progress in an industry or occupation furnishes a reasonable basis for increasing the wages of people in the industry or occupation. A little reflection, however, will show that this policy, if carried very far, would soon result in a badly distorted wage structure.

The rate of technological progress varies greatly in different industries. Among 38 manufacturing industries, for example,

output per man-hour rose more than fourfold between 1909 and 1937 in two and less than 67 per cent in seven.² If wages were increased as productivity rose, they would soon have little relationship to the skill and responsibility required of the workers. As a matter of fact, the movement of wages in free markets shows little relationship to increases in physical productivity. Among 38 manufacturing industries increases in hourly earnings between 1909 and 1937 varied from less than 150 per cent in nine cases to more than 250 per cent in twelve cases. The coefficient of rank correlation between increases in physical productivity and increases in hourly earnings was only about .05. This is what one would expect, because, as soon as wages in an industry become high relative to others, labor is attracted into that industry.

Most discussed and least understood among wage criteria is ability to pay. This is more often the employer's argument than the union's. Indeed, the constitutions of many unions require the union to seek to establish uniform wage rates within given markets. Uniformity is, of course, incompatible with ability to pay. Even in the General Motors case, ability to pay was not the positive basis for the union's demand. The union based its claim upon the argument that an increase in the price of labor was needed to avert a catastrophic drop in post-war markets. Merely by way of anticipatory rebuttal did the union argue that General Motors could afford to pay the increase demanded.

Ability to pay, or rather inability to pay, is an argument frequently used by employers. Obviously what he will use for money may be important to an employer—and it may also be important to his employees. In cases where unions are particularly interested in the survival of a certain employer (for example, when he is by far the largest employer in the market), a union may make special concessions in an attempt to keep the employer in business. On the other hand, a union which regularly made different settlements with different employers within the same labor market would find itself in trouble with both employers and its own members. Hence, there is little danger

² S. Fabricant, *Employment in Manufacturing, 1899-1939* (New York, 1942), pp. 102-104.

that ability to pay will be extensively used as the basis for differentials between employers in the same market.

Basing wages upon ability to pay would prevent the best distribution of labor and other resources among managers and would prevent maximizing the national income. Carried to its logical extreme, basing wages upon ability to pay would require a decision concerning the size of firm which should be regarded as standard. Any tendency for some firms to grow beyond this size would lead to wage increases—for the firm's ability to pay would be rising. It is obvious that such a scheme, or any scheme approximating it, would prevent the most efficient managers from supervising as many men as they could effectively direct. Hence the community would be deprived of the full benefit of the skill of these managers.

Wage demands are sometimes based upon the claim that the employer should pay as much as other employers in the same locality; sometimes upon the claim that the employers in one locality should pay the same rates as employers in other localities. Basing wages upon the first principle would tend to maximize the national product; basing them upon the second principle would not. Suppose that the prevailing wage in a community is high relative to other places. This is presumably because the community is a favorable location for certain growing industries and because the local adjacent labor supplies are inadequate. It is in the national interest that any enterprise which operates in such a place and uses part of the scarce labor supply pay the prevailing rate. This gives concerns which gain no special advantage from the location an incentive to move away and to release labor to enterprises which can use it more productively. On the other hand, requiring concerns with plants in several regions (say both North and South or large cities and small towns) to pay the same rates for the same work in all plants tends to limit the national product. Labor and capital are not uniformly distributed throughout the country. Furthermore, new supplies of labor and capital do not come uniformly from all regions. Geographical wage differentials are needed to stimulate labor to move from the South and small towns (where it is relatively plentiful) to the North and large cities and to stimulate capital to move from the North to the South and from the large cities to small towns.

VII

Implicit in the public policy of encouraging collective bargaining is the idea that a clash of wage policies of employers and wage policies of unions will produce a more satisfactory wage structure and a more satisfactory behavior of wages than would have existed had labor organizations been weaker. I shall not examine whether or not this expectation is likely to be realized. It is important to observe, however, that there is no reason to expect the clash of wage policies to produce either (1) the structure of wages or (2) the behavior of wages which would maximize the national income.

Let us first look at the structure of wages. Under collective bargaining, wages in different occupations or industries will vary with the relative bargaining power of the parties—which may be defined as the cost to one party of exacting a concession from the other. Wages under collective bargaining tend to be set at the point which equates the willingness of the two parties to fight—that is, at the point below which the union's willingness to stand a shutdown exceeds the employer's and above which the employer's willingness exceeds the union's. The wages which equate the willingness to fight of unions and employers in different occupations and industries will not necessarily equate the marginal worth of labor in different occupations and industries. Hence there is no reason to suspect that collective bargaining will produce the allocation of labor between different occupations and industries which yields the largest product.

Since the bargaining power of labor depends only partly upon the skill and responsibility of labor, the bargains in some occupations and industries will be more attractive to men of given skill and responsibility than the bargains in other industries. Hence, some occupations and industries will attract more men relative to employment opportunities than other occupations and industries. The result will be "wage distortion" unemployment—that is, unemployment resulting from the fact that a larger number of men relative to jobs are attracted to occupations and industries where the bargaining power of labor is high.

The possible bad effects of collective bargaining upon the wage structure and upon the distribution of resources between industries, occupations and regions does not impress me as seri-

ous. At the worst, it could affect only a small percentage of the output of only a small fraction of the labor force and of the total stock of capital. If the maldistribution of labor and capital were to reduce the productivity of 10 per cent of the work force and 10 per cent of the capital by 10 per cent (and these are fairly generous estimates), the national income would be reduced by only one per cent. Some wage-distortion unemployment may be produced, but it can hardly be regarded as much of a problem. It is voluntary unemployment resulting from the fact that some persons prefer intermittent work at high wages to steadier work at normal wages.

More serious are the possible results of collective bargaining upon cost-price relationships and, therefore, upon the volume of employment. Two things may happen. One result of collective bargaining may be that money wages advance faster than scientists and managers can raise the productivity of labor. Unless prices rise to offset the increase in wages, unemployment will grow until labor's bargaining power has been reduced sufficiently to prevent the advance in wages from exceeding the gain in labor's productivity. So long as the supply of money, swollen by the war, is abnormally large relative to production and incomes, prices may advance readily in response to increases in costs. In the long run, however, it is difficult to see why prices can be counted upon to rise sufficiently to offset any tendency for unions to increase wages faster than technological progress raises wages per man-hour. The upward pressure on wages would neither increase the quantity of money nor reduce liquidity preference. Consequently, a certain amount of chronic unemployment may be necessary to keep wages from rising faster than the productivity of labor. A second possible result of collective bargaining is that the supply price of labor may respond so quickly to increases in the demand for labor that jobs fail to increase as fast as the work force. The adjustment of prices and wages to technological progress needs to be slow enough to provide sufficient investment opportunities to absorb the volume of investment-seeking funds that would be generated at a satisfactory level of employment. Otherwise a satisfactory level of employment will never be reached. The spread of unionism means that the labor market is being organized to make the

reservation prices of labor more sensitive to changes in the demand for labor. The response of union reservation prices to increases in the demand for labor might conceivably be so prompt that no increase in employment would result. This extreme case is unlikely, but there is no assurance that the response of unions to increases in the demand for labor will be slow enough to permit jobs to increase as fast as the number of job seekers.

Since there is a possibility that the upward pressure upon wages may prevent the attainment of a satisfactory level of employment, does the government need either (1) to establish a national wage policy for the purpose of keeping the rate of increase close to the rate of technological progress, or (2) to adopt policies designed to stimulate a rise in prices?

It is undoubtedly too early to reach definitive conclusions concerning these questions. Nevertheless, it is desirable to see clearly that they are likely to arise. A national wage policy does not seem very practical if collective bargaining has a tendency to push up wages too fast for full employment. The government can usually enforce a wage policy designed to *accelerate* the rise in money wages because the unions are willing to strike in support of this policy. On the other hand, the government, even if it were willing, could not enforce a policy designed to retard the rate at which collective bargaining pushes up money wages because unions strike against that policy. The government has not yet developed a way of enforcing public policies against strikes designed to thwart or change those policies.

Perhaps the engineers and scientists will save us from these difficulties by making technological progress so rapid that the upward pressure on wages fails to produce chronic unemployment. Collective bargaining itself may be an important stimulus to the expansion of industrial research. Should technological advance be too slow for the rise in wages, the community will have to consider how best to reconcile its interest in encouraging collective bargaining with its interest in encouraging a high level of employment. The most practicable solution might be public policies designed to encourage a rise in prices.

REMARKS

CHAIRMAN RANSOM: Thank you, Professor Slichter, for this very clear and objective analysis.

We continue our discussion with respect to wages. Our next subtopic is "Wages and Economic Efficiency". We shall approach it at the moment from the factual viewpoint known to industry. I present as our second speaker of the morning Mr. Andrew T. Court, of the Labor Economic Section of General Motors Corporation.

MR. ANDREW T. COURT: Thank you, Mr. Ransom. Although I come from industry, I feel, as I speak today, more concerned about the economic welfare of the general public and the impact of recent trends on our national standard of living than I do about any specific problem of industry. Thank you for giving me a chance to discuss this problem as one in industry sees it.

WAGES AND ECONOMIC EFFICIENCY *

A. T. COURT

Labor Economics Section, General Motors Corporation

A WIDER use by industry of incentive-pay plans or piece rates can help this country attain a high standard of living in the post-war period. Better living for all Americans depends upon increased consumption and production of food, clothing, housing, automobiles, and other goods and services which are part of the American standard.

Increased production must come before increased consumption. Recent experience indicates that a surplus of money in the hands of customers will not provide a high standard of living when production is inadequate, inefficient, or continually interrupted.

High-level employment is important for maximum production. There must be jobs for almost everyone willing and able to work.

Some persons are capable of doing a great deal more work than others because of superior physical or mental capacity or better attitudes. However, when workers on a productive job are paid a flat hourly rate, there is a great pressure for every member of a work group to reduce his output to the level of the slowest worker. The more productive individual feels that he cheats himself if he produces more per hour, but receives no more pay than the laggard. On a flat hourly pay basis five good men on a job will turn out more total production than will five good men and one slow man, all working at the slow man's pace. Employers cannot be expected to provide opportunities for substandard workers on a flat pay basis when the very presence of these workers slows down the more competent person already on the job.

Under incentive-pay or piece-rate systems many more workers and groups of workers are free to set their own pace accord-

* This represents a summary of Mr. Court's talk at the Academy Meeting.

ing to individual skill and energy. This pay system increases the proportion of employable persons in the community. It will be difficult to achieve high-level employment unless incentive- and piece-pay systems are more widely used.

High individual efficiency is a second major condition necessary to maximum production and a high standard of living. Incentive- and piece-pay plans increase the individual output per man-hour and permit higher hourly earnings without increased prices. Studies made by the War Production Board, where incentive-pay plans were introduced, show that the individual productivity increased 38 per cent, worker earnings increased 18 per cent, and costs were reduced 12 per cent, permitting lower prices. A United States Department of Labor study made before the war indicates that the average hourly earnings of workers on incentive pay in machinery-manufacturing industries were, on the average, 18 per cent higher for a given occupation than were the earnings of workers of similar skills paid by the hour.

Under an incentive- or piece-pay system where every individual can proceed at his own pace and be compensated accordingly, the average earnings are raised substantially because wages reflect the individual's skill and effort—not the skill and effort of the least able person in the group.

Trade unions which are more interested in increasing the income of their members than they are in revolutionary ideology—for example, the Ladies' Garment Workers, the Amalgamated Clothing Workers, the Steel Workers, and the United Mine Workers—accept and even encourage incentive- and piece-pay plans in their industries.

One of the most serious problems facing management is the common misconception promoted in factory workers' minds by a few politically-minded union officials who, in their speeches and statements, give workers the impression that it is possible to force widespread wage increases on employers by economic and political pressure, and at the same time prevent commensurate increases in prices and in the cost of living. The simple fact is that, although some manufacturers make rather large percentage profits, the great majority operate on quite a narrow margin, and if wages generally were raised as much as 5 per cent without an equivalent increase in prices, tens of thousands of large and

small firms would be forced to the wall, and large-scale unemployment would ensue. This means that wage increases, unless based on increased individual output, must result in price increases, which leaves the wage-earner without a real net gain in his standard of living.

The realization of this basic economic principle has led General Motors, in recent labor negotiations, to urge that international officials of the United Automobile Workers permit their locals, which so desire, to negotiate incentive-pay plans with the local management.

The General Motors division of the U.A.W. has been adamant in opposing such an arrangement, even though there was no question but that it could increase hourly earnings of General Motors factory employees without increasing costs or prices. Typical of this faction's position are the statements: "The Fifth Freedom which we demand is freedom from the fear of abundance"; and "The economic problem which faces our nation is not a problem of more production but of getting our members a larger share of the present productive capacity."

By contrast, other divisions of the U.A.W. have recently worked out incentive-pay plans with resulting increased earnings for the employees of other motor car and parts companies. In one automobile parts plant where the workers were allowed to vote on a proposed incentive-pay plan as compared with their existing flat hourly rate, 75 per cent of the ballots favored incentive pay.

REMARKS BY THE CHAIRMAN

CHAIRMAN RANSOM: Thank you, Mr. Court, for your interesting presentation.

We turn now to a discussion of "Wages and Prices". During these days when the great debate has gone forward between unions and government on the one hand and employers on the other, and the papers and the radio have been filled with contending messages and statements, we may have forgotten that an independent public opinion in America may some day be important, and that reliable information and analysis must underlie it.

Speaking purely from a personal point of view, I believe that, day in and day out, the editorial analyses of questions in this field by Mr. Henry Hazlitt, of *The New York Times*, have been of vast help for an informed and intelligent public opinion in America, and I have the honor to present him as our next speaker, on "Wages and Prices".

WAGES AND PRICES

HENRY HAZLITT

The New York Times

THE subject of my address has been set down on this program as "Wages and Prices". That subject is so broad, and has so many facets, that it could well occupy an entire book. In a short talk of this kind I am compelled to confine myself arbitrarily to only a few of the problems involved in the relationship of wages to prices.

I shall be obliged to take certain basic principles for granted, without presenting the arguments for them; and, although they are quite traditional principles, it may be helpful if I begin by at least confessing what they are. In the view of Ricardo and his disciples, prices were determined by wages. More broadly, prices were thought to be determined by all costs of production, but costs of production were thought of as consisting ultimately of costs of labor. The "Austrian" school reversed this view. It held that prices were determined by marginal utility and that wages were determined by prices.

Such short statements enormously oversimplify the problem; but I may indicate here that my own analysis is based on the so-called "Austrian" view. The value of the product determines the value of the elements that go to make up the product. The case is likely to be clearest if we assume a free economy and take, for example, the salaries of motion picture actors. Why does X draw a salary of \$200,000 a year, while Y, who plays supporting rôles, gets only \$50,000, and Z, an extra, gets only \$5,000? Most people recognize immediately in this case that it is because X has the biggest "box-office appeal". More people will pay more money to see him in a picture than will pay to see Y or Z. The producing company can afford to pay X his high salary because it can sell its picture for more to exhibitors; they in turn can afford to pay more for the picture because they know that a larger public will pay to see it. It is

because they know (or believe) that the public is ultimately going to pay it that the producers are ready to "advance" X this salary, on the same principle that a publisher advances a promising author part of his expected royalties. X's salary, in short, depends upon, and is derived from, what he contributes to the total value of the product. It is what the picture sells for that determines what X is worth.

It is so, in the last analysis, with all other salaries and wages. The value of the workers' services is derived from the value of the products they help to create. This is the doctrine and the meaning of productivity.

In other words, wages are not low in China and high in the United States because Chinese employers are niggardly or American employers generous. Wages are not low in China because the Chinese employer "follows a low-wage policy" or high in the United States because the American employer "follows a high-wage policy." Wages are low or high because of the marginal productivity of the worker.

To put the matter in another way, the employer is a sort of middleman or broker between worker and consumer. What he can pay for labor is determined by what the consumer is willing to pay for the final product into which the labor enters; and wages cannot be excessively boosted, or profits excessively curbed, by either governmental or union action, without discouraging either the ultimate consumer or the employing middleman and thus endangering employment.

It is not difficult to reconcile this view of the matter with a theory that postulates a close relationship in the long run between prices and costs of production. It is not true that costs of production directly determine prices. What a commodity *has* cost to produce does not determine its market value, but what it *will* cost to produce may determine whether or not it will be made, or how much of it will be made. Thus present demand affects future supply; and thus there is a constant tendency for price and marginal cost of production to equal each other, though not because one directly determines the other.

With this very brief theoretical outline out of the way, we are prepared to discuss some of the practical problems that arise in the relationship of wages and prices at the present moment.

We are now in an inflationary period. Pressure for higher prices is caused in part by continued wartime shortages of consumer goods and by accumulated consumer demands. More importantly, it is caused by a huge increase in the monetary medium and by policies that tend to bring about a still further increase. The volume of money and bank deposits has more than tripled since 1939. A policy of artificially low interest rates, combined with a continuing budget deficit, keeps increasing the volume of credit. Yet we are trying to "combat inflation", not primarily by dealing with these causes, but by putting legal ceilings on wages and prices—or at least by putting ceilings on prices.

The executive orders under which we now operate are in many respects conflicting and ambiguous; but, in spite of apparent contradictions, it would not be unfair to describe our present economic policy as one of trying to hold the price line while allowing wages to remain practically free from controls. The federal government has even encouraged, if it has not virtually ordered, a general wage increase in the neighborhood of $18\frac{1}{2}$ cents an hour.

Now can we really expect to "hold the line" on prices while permitting wages to go wherever competition or collective bargaining sends them? Obviously, the result of such a policy, if persisted in, must be to wipe out altogether the profits of marginal firms, or the profits on particular items, so that those items will go out of production and those firms will go out of business. The result, in short, if the policy is carried far enough, must be both to reduce production and to create unemployment. This result may be delayed or disguised for a while in an inflationary period like the present. Greater demand tends to bring greater volume of production; greater volume of production usually tends to reduce unit costs, and it may allow net profits to remain high even with unchanged or higher unit costs. But if the policy of boosting wages and holding prices is carried sufficiently far, it must eventually disorganize production and lead to unemployment.

This brings us to a wider problem. If we grant that we cannot boost wages and hold the price line, is it not at least possible under present conditions, it may be asked, to hold the line on both wages and prices by direct government ceilings?

It will be found on examination, however, that this is posing the problem as if it were primarily concerned with the interrelationship of prices considered en bloc with wages considered en bloc. But this is a false way of looking at the real problem we have to deal with. We really have to consider the relationship of each price to each wage rate. Further, we have to consider the interrelationships of thousands of prices with each other, and the interrelationships of thousands of wage rates with each other. For each of these relationships affects production. Each of these relationships affects the relations between supply of and demand for particular products. If we take as our base the prices or wages of some past period—of January 1941, for example—we must take over at the same time the complex interrelationships of thousands of individual prices and wages which were determined by the particular supply and demand conditions of that particular month and year. But those supply and demand conditions no longer exist. Any effort, therefore, to preserve or petrify the interrelationships based on them must distort and disrupt the present structure of production.

Price control itself inevitably does this. Price ceilings that are held below the level to which the forces of a free market would bring them tend to encourage consumption and to discourage production, thus bringing about shortages. If I were to elaborate upon this point, I should get into the general question of price control, which is beyond our present subject. I am bound to mention the general nature of the consequences of price control, however, in order to emphasize the enormously more complicated problems raised when we consider the interrelationships of wages and prices as well as of wages to each other and of prices to each other.

This brings us to another problem that has been much discussed of late. From the Office of War Mobilization and Reconversion there leaked out a few months ago figures, never officially sanctioned, purporting to show with some qualifications that industry could "afford" to raise wages by 24 per cent. At the same time the Department of Commerce put out a report, later retracted, which declared that "present cost-price relationships are such throughout industry that a basic wage increase is possible without raising prices"; and that the automobile indus-

try in particular could grant a 15 per cent increase "without adverse results in the first post-war year . . . and a further increase of 10 per cent . . . for 1947."

Now it is not my intention here to analyze the figures which purportedly led to these conclusions. I should like rather to raise the broader question whether trustworthy calculations of this sort are possible at all—especially with the very limited data that even government bureaus are likely to have. I do not think, in fact, that over-all estimates of this type can be either trustworthy or useful. Prices and wages, in the first place, are always specific; they do not consist of "levels" or averages. Over-all averages can, of course, be approximately calculated or abstracted from selected prices or wages. But it is quite invalid to use such averages, in turn, to try to calculate what a specific wage or price ought to be. The problem of the level of a particular wage or a particular price, or of its relationship to thousands of other wages and prices which it affects and which affect it, is always a specific problem. It cannot be answered in terms of the general price "level" or wage "levels"; it cannot be answered in terms of *averages* at all. These mass over-all calculations completely ignore the fact that any "average" advance in wages would affect each industry and each firm to a different extent and in a different manner. No statistician could predict the effect of a given general wage increase unless he knew not only the over-all profits of industry but the profits of each industry and the distribution of those profits as among particular firms—as well as scores of other constantly changing facts than no one mind does know. The folly of the government's encouraging, recommending or ordering an increase of 18½ cents an hour in each wage, regardless of the particular existing wage to which that increase is added (especially at the same time as the government pretends to be "holding the line" on prices, or allowing "only a bulge, and not a breakthrough"), ought to be too obvious to require serious analysis.

This attempt to treat wages and prices in terms of over-all averages has led to some queer conclusions. A few months ago the Secretary of Commerce was reported to favor a 15 to 20 per cent wage increase, provided prices were not increased more than 3 per cent. This calculation seemed to be based on some notion that wages constitute only one fifth or one sixth of

costs of production or of sales prices, and that a 15 per cent increase in wages would require only a 3 per cent increase in prices for everything to come out even again. If that were so, our problems would be enormously simplified; for if such a fixed relationship existed, we could increase wages, say, 150 per cent and prices only 30 per cent; or wages 1,500 per cent and prices only 300 per cent, and labor would always come out better off both relatively and absolutely.

It is clear, unfortunately, as soon as we make the figures large enough, that the proposition reduces itself to a mathematical absurdity. For the last fifteen years or so, "labor" has consumed, it has been estimated, about 75 per cent of the national product. But if labor is now consuming 75 out of every 100 units of production, then with a 150 per cent increase in wages to a 30 per cent increase in prices it could consume 187 out of every 130 units—which, as Euclid would say, is impossible.

The fallacy which gives rise to this belief that a wage increase could be safely imposed on the economy substantially greater than the accompanying price increase is that of looking only at the direct wage costs of a specific trade. In the automobile industry, for example, the direct wage costs at the assembly plant may be less than a third of the total costs; and this may lead to the conclusion that a wage increase of 30 per cent would require to offset it a price increase of, say, only 10 per cent. But the falsity of this is apparent as soon as it is recognized that the other costs of production of the automobile industry—the costs of raw materials, of rent, of transportation, of selling—"break down" in turn largely into wages paid by *other* industries. And a general wage increase would raise these indirect labor costs in each industry as well as its direct labor costs.

If the labor income of the country represents approximately 70 to 75 per cent of the total income of the country, as has frequently been estimated, then an increase of 30 per cent in wages, it might more reasonably be deduced, should ultimately reflect itself in an increase of 20 to 22 per cent in prices. While the over-all mathematics of this is better, I do not think that even this sort of calculation is very useful. Like the other over-all kind of calculation we have been discussing, it ignores the specific realities of the situation. One might make the abstract

objection, for one thing, that if the relative purchasing power of profits were cut down in this way marginal producers would desert the ranks of employers and entrepreneurs and would join the ranks of employed labor. But the real objection to this method of measuring wage-price relationships is of another nature.

If we discuss the problem more realistically, this type of over-all calculation is seen to be extremely dubious. If in an otherwise free market the wage of some powerful union group is forced above the equilibrium level, the main result may not be a corresponding rise of prices of the product which that union makes. The main result may be unemployment. Even if a price rise is the immediate result, the price advance restricts the market for the product, restricts the volume of sales, reduces production and therefore reduces employment.

At the moment we have a very unusual economic situation. We have a volume of money and credit that would doubtless sustain higher wages and prices than at present exist. These levels are kept down to a certain extent by governmental controls—though (when we consider quality deterioration, black markets, and reduced production) not quite to the extent that government statisticians calculate. But even under existing conditions, it should be clear that inflation is not caused, as is so often supposed, by an upward “wage-price spiral”. The causation, in fact, is the other way round. It is the monetary inflation and a shortage of goods that make the wage-price spiral possible. We could not, for example, have had an upward wage-price spiral in 1932. If we had tried it we should only have increased unemployment. It is precisely because we did try artificially to bring about an upward wage-price spiral in 1933 and 1934 through the N.R.A. that we prolonged our unemployment and depression. At the present juncture, it is true, governmental encouragement of a wage increase acts *politically* as an inflationary factor, by bringing later pressure for a sufficient price rise or monetary inflation to make it work. But this does not mean that a wage-price spiral is the basic economic cause for inflation.

The basic cause for inflation is to be looked for on the monetary side. Government price and wage controls cannot cure inflation; they merely tend to prevent production from going into the channels where there is the greatest consumer demand. They

reduce production, if not always in terms of tonnages, at least in terms of utilities to consumers. If we are to combat inflation we cannot do so through wage and price ceilings, but only by dealing with the fundamental monetary causes of inflation.

To sum up, the main proposals and theories now prevailing with regard to wages and prices are the product of political expediency rather than of scientific study. If we try to hold down prices while permitting wages to go wherever competition or collective bargaining sends them, we must eventually disorganize production and create unemployment. Even if we try to hold the line on both wages and prices by direct government ceilings, we must still distort the structure of production and create shortages. It is a delusion to suppose that all wages can be raised by some given percentage without affecting prices, or affecting them only to some negligible extent. We cannot cure inflation by trying directly to prevent a wage-price spiral, but only by dealing with the causes of inflation, which are basically monetary. If we deal with those causes, then we can safely leave wages and prices to seek the levels to which the forces of a free market send them.

Finally, we can do most to clarify our economic ideas, not by returning to medieval concepts of "just" prices or "just" wages, but by maintaining the modern concept of functional prices and functional wages. The best prices are not the highest prices, but the prices that stimulate the largest volume of production and lead to the largest volume of sales. The best wages are not the highest wages, but the wages that lead to full employment and the largest possible payrolls. The best profits are not the lowest profits, but the profits that encourage the most persons to become employers and to provide jobs. Prices, wages and profits must be thought of together. Only when we have achieved the best balance among them can the economy function at its fullest. If we try to force one of these elements out of relationship to the others, we must reduce production and hurt everyone—and sometimes most of all the very groups we are most eager to help.

REMARKS BY THE CHAIRMAN

CHAIRMAN RANSOM: As I announced at the beginning of the meeting, we regret very much the absence through illness of Mr. John W. Scoville. Next we shall turn to discussion of the addresses of the morning, and we shall have the benefit of the experience of one of the best known of American trade unions, a militant union which has solved through arbitration and through all sorts of friendly relations many of its own problems in relation to employers.

I have the pleasure of presenting, from the Research Department of the International Ladies' Garment Workers' Union of the American Federation of Labor, Dr. Broadus Mitchell.

DISCUSSION: LABOR POLICIES AND LABOR CONDITIONS

BROADUS MITCHELL

Research Department, International Ladies' Garment Workers' Union

WHAT I have to say in the few minutes allotted to me will deal only occasionally or incidentally with the experience of the union with which I am connected.

So much has been said this morning that provokes comment that I wish it were possible for me to run down the brief notes that I have taken and deal with twenty controversial questions which have been broached. It obviously is not possible to do that, so I hope you will allow me to say something in general which undertakes to apply to much that has been said.

Many years ago in central Europe on a snowy night a cart drew up before the tavern of a small village. It belonged to a showman who unloaded from the cart a strange and wonderful machine which he proposed to exhibit. He explained that it was an automatic chess player, a marvel of mechanical achievement, a thinking machine which was accurate in all circumstances. He invited the villagers who were skilled in playing chess to match their skill against the machine. They did. Each one was promptly beaten. When the player would make a move, there would be a whirr of wheels, a release of springs, a movement of levers, clicking of ratchets, and the opposite piece would move with fatal ingenuity.

The snowstorm continued, and the showman found, to his consternation, that he would not be able to go on that night. He demanded a room in which he could lock himself with the machine. That was all right; but, as the storm continued several days and he was unable to move, the people of the inn, who had their curiosity piqued anyway, were astonished at the amount of food and drink that he ordered sent to his room.

It was disclosed then that while the machine had a facade of mechanical devices, inside was a Prussian army officer who had

lost his legs in the war, but, being a chess master, made his living in this unusual fashion.

Now, some of the gentlemen on the platform are in the position of the villagers who marveled at the mechanical accuracy of the machine. I am afraid they are thinking of an economic system much more automatic than ours is today. That used to be the idea. Mr. Hazlitt has run over some of those conceptions. He feels that an unhappy fate will befall, if certain unlucky combinations of economic forces are permitted. Mr. Court and Professor Slichter, similarly, I think, imply in much that they say a reliance upon a mechanical, automatic system.

Now, the intelligence in our economy is not one of levers but of human brain and intention. It may be poorer, it may be better, but if we are to have the kind of society we want, we are not to be victims of any set of economic forces that reside in the textbooks. These gentlemen speak of the difficulties of raising real wages in a society which has just given the most amazing demonstration of its capacity, when it willed it, to increase output beyond anything ever conceived.

I come from the Tennessee Valley area. It was held up before the nation, and properly, as the least productive in America. It so happens that in the center of that area was made the atomic bomb. How long would it have taken to pull down Hiroshima by hand or with the best explosives we had before the bomb? We tore it down in an instant, as a result of this extraordinary achievement. Two per cent increase in productivity a year, three per cent—how absurd! We increased it a hundred per cent during the war when we had a national object. My plea therefore is that we shall use our capacity to supply life, not death, that we may raise the standard of living, not destroy people and property.

We used to say, as Mr. Hazlitt is still saying, consumption is limited by production. It is not true. Production is limited by consumption.

Several have said here that if you pay workers more, there will be unemployment. Was there drastic unemployment in the automobile industry in the twenties because the workers were paid too much? Mr. Court's industry objected to any unionism,

with conspicuous success, for many years, and now he quarrels about particular little proposals of the union.

Someone whispers that I am a union man. A circus came to a small town, and the ringmaster was worried because his animal trainer fell sick. He turned to the Negro boy who had been employed to push around the sawdust and said, "Won't you go in this animal act in the emergency?"

The boy demurred. The ringmaster said, "Oh, you don't need to worry. It is true you have to get in bed with the lion, but it is a very amenable lion. He was born in the circus. His mother died, and we brought him up on milk from a bottle. He is a milk-fed lion."

The boy said, "Yes, I was brought up on milk, too, but I eats meat now." I am a union man. I was brought up on milk, but, since we have fourteen million members, we eat meat.

We are concerned with the economy of this country. We are not within the confines of a textbook. We do not propose to have again the imbecility of mass unemployment leading to war as its only exit. If we have to rob these gentlemen of their cherished concepts, that is going to be the smallest casualty.

The New York Times, on the question of the relation of wages and prices, as we say down South, "enjoys poor health." Their lament, day after day, it seems to me—Mr. Hazlitt, forgive me—misconstrues the changes that have come in our economy. A society which deliberately wastes as much as ours does in mass unemployment, in duplication of productive effort, in conflict of enterprises, more than all else in war, does not need to worry about narrow margins of wages.

We have got a prodigious surplus which is our embarrassment. We are constantly thinking of ways to get rid of that surplus. It was not more than six months ago that the Department of Agriculture was announcing restriction of output. Some of us, protesting at the time, said, "You are returning to an old policy intended to produce artificial scarcity. You are notorious for it."

"Oh no, not at all," they said. "This is just readjustment."

Now the world is confronted with famine. Six months ago Secretary Anderson said: "We are going to limit eggs." Eggs, of all things! Yesterday Mr. Truman said, "The kids of Washington can't have the egg hunt because Europe needs the eggs."

The rules are off. We can, by taking thought, add a cubit to our stature. We can have full employment, steady production, maximum use of our natural resources and our human faculties, but we have to do it by planning, not by crystal-gazing into the misconceptions of a laissez faire economy which is long since outmoded.

REMARKS BY THE CHAIRMAN

CHAIRMAN RANSOM: Our whole topic for the morning is that of "Labor Policies and Labor Conditions". Thus far we have perhaps emphasized the matter of wage policies and industrial production and efficiency.

Our last speaker of the morning is one who certainly may take as broad a view of our topic today as he sees fit, and he is a person well qualified to do so.

In the legislature of the state of New York, the Honorable Irving M. Ives has for many years been identified with forward-looking and remedial measures in the field of legislation as to labor relations.

Now, following the session of the legislature which has just adjourned, he has become the dean of a new state school. He and his colleagues in the legislature had a great deal to do with the establishment of this pioneering school, for such it is, namely, a State School of Industrial and Labor relations at Cornell University.

It is a great pleasure at this stage in the program, when we are at an intermediate stage between our morning topic and our afternoon topic on the "Settlement of Labor Disputes", to present this outstanding legislator in the field of forward-looking measures, the Dean of the State School at Cornell.

DISCUSSION: LABOR POLICIES AND LABOR CONDITIONS

IRVING M. IVES

Member of the New York State Assembly
Dean of the New York State School of Industrial and Labor
Relations at Cornell University

I THINK I will speak this morning as a politician. I seem to be able to take about any rôle I want to nowadays, although, do not misunderstand me, I do not pose as an educator in any shape or manner.

I have listened to these discussions this morning with a great deal of interest, and I could probably carry on for several hours. You know, politicians have those qualities, but I won't do it.

I would like to point out a number of things which are perplexing me, and I imagine are perplexing everybody else. In the first place, I want to say, for the representatives of organized labor, a word, and also for the representatives of organized management.

You know, when you are a leader in management or a leader in labor, you are representing people. That applies to politics. You see, I can speak with deep feeling on some of these subjects. You have got to carry out the ideas of a lot of folks, and, unless you do, your usefulness in the capacity where you are exercising that authority is going to be very soon eliminated.

I know just how it is. I know that the Federation of Labor, year after year, comes to Albany with any number of resolutions requesting certain legislation. When I went over it with them, I used to say: "What on earth do you want this for? What on earth do you want that for?" I do not ask those questions any more; I know! They have conventions. This local and that local have certain things that must be attended to. That is correct, isn't it, Mr. Mitchell? These things are taken care of by resolutions, and then the resolutions are tossed into legislators' laps. Of course they have to see to it; and we have

to see to it, as far as is possible. These matters receive the attention to which they are entitled, and, as a result of such resolutions, a great deal of useful legislation has been enacted.

And so it is with management. I would not expect you, Mr. Court, to get up here this morning and start lambasting stockholders. That is not your function. Management has got to see to it that the stockholders get a reasonable return on their investment, and that is why some kinds of legislation now and then emanate from that quarter. I have a deep sympathy for management in all of these various rôles that management has to play.

You know that management and labor are not far apart in the basic functions with which those who represent them are concerned. The job is to get them together so they look in the same direction on all things.

There are one or two things that have particularly interested me at this meeting. In the first place, I do not think it has been brought out here this morning (although it was indirectly hinted in a number of instances) that we are actually in inflation now, whether we believe it or whether we do not. We have a national debt approaching 300 billion dollars. As has been pointed out, our budget is still not balanced, and the requirements of meeting that debt, in addition to other financial requirements of the country, are going to be rather staggering as time goes on. I dare say the debt service alone will take just about as much of our national revenue as was used in years gone by to take care of our whole federal budget. I am talking now about times prior to the war.

We are in inflation, let us not be deceived in any way, shape or manner, and, being in inflation, naturally our whole level of prices, wages and everything else is bound to show that reflection. We have got to have high wages, call them real wages or call them dollar wages—I do not care what you call them. Real wages are fundamental.

Let us call them dollar wages. We are dealing in dollars, our debt is in dollars, our deficits are in dollars, our currency is dollars. Dollar wages have got to be high under conditions as they are now.

I listened with a great deal of interest to the statement on incentive pay. I think that I get the idea of the opposition to

incentive pay. I think that the theory is that the more the individual produces, in line with the necessary amount to be required by the available consumption, the fewer individuals there will be producing and the more unemployment will result.

The thing that I am interested in at this particular juncture is the question of profit-sharing, not incentive pay. It seems to me that some form of profit-sharing might provide a substantial remedy in solving the problem of booms and depressions in our economic system. You know we cannot have another depression of sizable proportions and still retain our capitalistic society which we have enjoyed.

There may be those here this morning who do not like capitalism. I doubt if there is a single person of that type in this room. Maybe there is, but we will have to grant that, so far as we know at the present time, capitalism has produced more for the welfare of humankind than has any other system of society thus far evolved. At the same time, we will have to grant also that capitalism has definite defects. These have been pointed out, and one of them comes out of this question of employment, this question of wage and all that goes with it in the way of booms and depressions which are the greatest curses that go with capitalism, although they have been known to go with other types of society in the past.

If, instead of trying to find out how high wages we can pay at all times or how low we can keep prices, we will begin to start to see what can be done toward finding a plan by which booms and depressions can be eliminated in our free-enterprise system, we will be accomplishing a great deal more than by doing anything else that I can think of.

I want to speak for just a minute as a representative of government. I am getting ready now to transfer you into your afternoon program. Government has a rôle in all this business of wages and prices. It has a very definite rôle where management and labor are concerned, and in this state there has been a committee operating for eight years dealing with this particular subject of industrial and labor relations. Over this period of time this committee has been able to accumulate a great many data, a great deal of information, and out of it all this committee this year has made some definite recommendations where government and labor and management are concerned. I will read

to you a very small part of the report recently offered because this will lead you into the afternoon session.

As the present disagreement between labor and management increases in scope and intensity, more and more persons are demanding that something be done about it. The tendency to turn to government for the solution of the various problems which this conflict presents is still growing. In the face of these conditions, the Committee would fail in its duty and obligation to the legislature and to the state, were it not to make recommendations as to the way out of the present seeming impasse.

Over the years, the Committee's activities and experience provide answers to the basic questions inherent in these controversies between workers and employers. Indeed, for every serious question at issue at the present time, a proved and sound answer can be found in the Committee's studies, research, surveys, investigations and conclusions, which have been covered in its annual reports from 1939 to date.

At the outset, let us recognize that present-day unrest should not be unexpected. It is a natural reaction to abnormal conditions caused by the war effort.

Governmental functions and procedures, which had been previously created to aid in the relationship between management and labor, were largely by-passed during the war emergency. While at war, our chief task was to get goods produced in the greatest quantity possible and in the shortest time possible. To achieve this result, government was obliged frequently to usurp a far greater control over production than it had ever exercised in the past or should ever use in time of peace.

Both labor and management, in their anxiety to obtain quick decisions in matters of dispute, contributed toward bringing about this dominance of government in the field of industrial and labor relations. In so far as it was occasioned by serious problems affecting the war effort, this temporary surrender of fundamental rights was justified.

Too often, however, both labor and management have rushed to government for a decision in matters which could have been settled more satisfactorily through the utilization of existing governmental facilities that provide the means to agreement by

voluntary processes. By thus abdicating to government in matters where the decision of government was not required, labor and management have been surrendering to the one force which can destroy both of them.

Today, under presumably peacetime conditions when the functioning of our economy should be returning to a normal status, government is retaining too much of the power thus gained through short-sighted management-labor impatience. And government is grasping too much additional control in areas where management and labor should always act voluntarily and independently of government. As soon as possible, free collective bargaining, genuine mediation, and truly voluntary arbitration should again become the media for meeting the problems in all worker-employer relationships.

Ever since its creation, the Committee's action has been guided by four fundamental principles which are as follows:¹

1. The right of workers to organize and to bargain collectively, through representatives of their own choosing, should be held inviolate in all worker-employer relationships; 2. The right to strike, where the exercise of this right is neither against the public nor harmful to the public welfare, is inalienable in our American system; (By the same token and to the same extent the right to the lockout by an employer is also inalienable in our American system.) 3. The rights and obligations of employers in all worker-employer relationships should be commensurate with the rights and obligations of the workers; 4. The chief function of government, in dealing with worker-employer relationships, should be to promote good will, to encourage cooperation, and where resort is made to intervention, to be impartial and just, demanding obedience to all law by both parties concerned.

These four principles, enunciated by the Committee on May 12, 1938, have never been challenged by any responsible person. They are as true today as they were eight years ago. Moreover, their present-day observance would go a long way toward preventing the disputes, controversies and conflicts which have arisen and are arising between management and labor.

¹ *Report*, Joint Legislative Committee on Industrial and Labor Relations, 1939, p. 17.

In its efforts to help bring about "self-government of industry through self-regulation", which is essential to any society which would be free, the Committee has always emphasized the constant need for action through voluntary processes and warned of the dangers inherent in legal compulsion. A number of years ago, when he was Chairman of the State Labor Relations Board, Monsignor John P. Boland expressed the hope that he would live to see the time when the State Labor Relations Board would be no longer needed. So it is with all governmental machinery created to regulate and restrict and limit the basic rights and prerogatives of both labor and management.

Six years ago the Committee enunciated the following pronouncement as an appropriate guide for employers and employees in all matters of mutual or common concern:

The most satisfactory and happiest human relationships are the product not of legal compulsion, but rather of a voluntary determination among human beings to cooperate with one another. Though we may legislate to the end of time, there will never be industrial peace and harmony without good faith, integrity, a high degree of responsibility, and a real desire to cooperate on the part of all parties concerned. Without this spirit and good will, all of the social, economic, and labor laws of man will prove eventually to be in vain.

The fundamental philosophy contained in the above quotation is as true today as it was in 1940. In fact, its application is even more necessary today than in 1940.

Today bold and forthright thinking and action in everything pertaining to industrial and labor relations are vitally needed. Equivocation, compromise, pussy-footing, hypocrisy—these despicable expedients are no longer to be tolerated. Government and management and labor must again assume in our social order the proper rôles which each must play for the benefit of all.

In the turmoil of the moment, moreover, let it not be forgotten that the future prosperity and happiness of the American people depend primarily upon our capacity successfully to get along with one another. This goal can be attained neither by government alone nor by labor alone nor by management alone nor by any other group or element in our economy acting alone; it cannot be reached by a combination of government and labor

or of government and management or even of labor and management, acting alone; it can be achieved only by all of us voluntarily working together in the interest of the general welfare.

I think if there is one thing that is demonstrated this morning, it is this: we have had this division of opinion expressed here by the first three speakers, followed by a difference by the speaker just prior to me. We do not solve these things by standing up here before you and expounding to you. If anything, each one of us becomes more set in his own ideas. The thing that is needed to be done is the thing that is obvious here before us—where these differences do exist, let us sit down and talk them over quietly together and reconcile them and work them out, and in that way, if we do it enough, over a large enough area, we can work out of any of the problems or any of the difficulties that may confront us here in this country.

REMARKS

CHAIRMAN RANSOM: Our hour of adjournment has arrived. I thank you again and thank our distinguished speakers. The meeting is adjourned.

PART II

THE SETTLEMENT OF LABOR DISPUTES

INTRODUCTION *

LEO WOLMAN, *Presiding*

Professor of Economics, Columbia University
Director, National Bureau of Economic Research
Trustee of The Academy of Political Science

TODAY'S sessions of the Academy have been devoted to a discussion of the labor problem. In the morning—as those of you who were here know—we considered the theoretical or scientific aspects of this problem. This afternoon we will turn our attention to the administrative problems in human relations.

It is a great pleasure to introduce our first speaker this afternoon. He is a business man and a patron of the arts. He has, throughout his life, devoted himself to problems of management and of human relations. He will read a paper on "Human Relations in Industry". Mr. Sam A. Lewisohn.

* Opening remarks at the Second Session of the Semi-annual Meeting.

HUMAN RELATIONS IN INDUSTRY

SAM A. LEWISOHN

A FEW weeks ago I happened to meet a friend of mine, a well-known industrialist. Normally he is of even, cheery temperament. But this time he was in a mood so disturbed that he could hardly talk. After a while he confided in me what was bothering him so much. He had just been discussing some of his labor problems with a union leader, and that, he claimed, "could drive any man crazy." Then he whispered hoarsely, "Thank God, Sam, I have at least one inalienable right: I don't have to live forever. Some day I'll never have to hear the word 'union' again."

Fortunately, my friend still takes nourishment and seems much alive. But, unfortunately, his approach to labor problems was not making him happy or efficient. In tackling other business problems—many, I am sure, as disturbing as those he was complaining about—he was objective and poised. He regarded them as part of the day's work and took them in stride. But normal difficulties with the union hit him as nothing else did.

I wonder if we could not help him—and ourselves—by examining the emotional background with which we react to problems of labor relations. In applying such an approach to the realistic situations confronting us, there are broadly three separate phases of employer-employee relations which must be clearly distinguished. Their clarification will give a clue as to how labor difficulties occur and how they may be remedied.

The first of these phases, which is economic in character, many people, unfortunately, mistake for the whole problem. It is the most familiar because it is headlined in the press and emphasized in the schools. It includes crises over wages, hours and conditions of employment. The struggle is one over the question: To whom do the proceeds of progress belong and in what

proportion? The issue is not solely between employer and employee. It also involves the interests of the consumers and the public.

But this economic phase should not obscure the importance of the second phase—the administrative one. The most significant observation made about industrial disputes during the past two decades is that many could have been avoided through good management of human relations. The fact that the particular item in an industrial dispute may be economic should not blind us to the closely related human factor involved in the administrative side of labor relations. Furthermore, this second phase is much more important than is ordinarily appreciated.

When a labor dispute arises, one should ask: How were the employees treated previously? Was there mutual respect between them and management? Has a sound administrative tradition been established?

A suitable preparation for situations of tension materially reduces their impact and their seriousness. Also, the manner in which the difference in interest and point of view between employer and employee is presently handled is crucial as to what will happen. It depends on the spirit in which the negotiations are pitched. If, for example, it is impossible for a company to increase a wage or if, as at certain times, it is necessary to reduce it, the manner in which this delicate situation is conducted may determine how the employees react to it. A proposal made in a sympathetic manner may be met with understanding acquiescence, while a brusque gesture may be countered with a spontaneous resistance. In such a case, what seems to be an economic issue is to a large extent, or entirely, an administrative one. The method of handling the problem rather than its innate difficulty may lead to trouble.

In other words, in addition to the stereotype of our classical economists—the “Economic Man”—there is an “Administrative Man” who is part of a complicated organization trying to achieve results. Employers and employees partake of both. In his rôle as “Economic Man” an employer’s concern is with profits. As “Administrative Man” his concern is the teamwork and satisfaction of those in his employ, for labor was correct when it resented being called solely a commodity. Not to recog-

nize that besides the economic problems there were human administrative problems was a cardinal error of our nineteenth-century economics.

One of the difficulties with labor relations is that the economic and the human, administrative phases are so enmeshed that it takes an intellectual and emotional effort to disentangle them; but if we are to have satisfactory relations, disentangle them we must. For this mingling of the administrative and economic, and failure to distinguish between the two, has been the cause of much of the confusion that exists.

A third phase of labor relations which further complicates the problem is what may be called the political factor—that involved in the rivalries and disputes between different organizations of workers striving for control, unfortunately not only between different organizations, but between different factions and different personalities within the same organization. Such unhappy conflicts, today so prominent, have almost no relation to the employer except as a suffering bystander. Indeed, in a large area of such disputes he must be quiescent. As the victim of this bitter struggle between contending groups and factions he has to sit by with his hands folded and suffer in silence.

Using this classification of labor difficulties as a background, I shall proceed to discuss them briefly, not to offer a large-scale program or panacea, but to emphasize one method of approach which has both immediate and long-range significance.

With respect to the first phase of labor relations, the economic, it is not my function even to attempt to amplify the penetrating and the illuminating discussions of this morning's sessions on the problems of wage policies, now uppermost in everyone's mind.

The economic aspect of labor problems, however, will come to a satisfactory conclusion more readily if collective bargaining is marked by a minimum of threatening and bullying, if it is free from arbitrary refusals and hasty condemnations, and if employers and union leaders negotiate in the same spirit and on the same plane as is customary with ordinary commercial contracts. It should be possible to conduct these affairs, *no matter how much is involved*, with a sense of social responsibility, with calm and efficiency, and with a recognition of joint goals and enlightened self-interest. Business men should be the last to in-

ject a class-conscious spirit or allow these negotiations to be the football of their emotions. Indeed, the very fact that the negotiations are between employer and employee should make it the more important that they be not conducted at arm's length. The atmosphere should be one of understanding rather than of hostility.

As an example of this sort of leadership, I cite a paragraph from a letter from an experienced negotiator for a company with whose operations I am familiar. He states:

In our negotiations the manager and I frequently encounter wholly unacceptable proposals of the Unions, but after investigation we find these are directed toward the curing of a specific grievance or injustice. As a result of past experience we now ask the Union negotiators frankly just what they are trying for, and why. In many cases we learn that the words used in the Union's proposal are inept or cover much more territory than is required for the curing of the grievance in question. Many times the company is just as interested in adjusting the particular situation as are the employees. With a thorough understanding of the situation and the absence of any prejudice, a compromise is frequently arrived at to cover the situation, whereas without investigation and understanding, this could have led to a complete breakdown of negotiations. In a great many instances the Unions either acquiesce or request us to redraft the section in question in such form that the Union's real objectives are achieved without including in the contract any commitments objectionable to the company.

This instance is significant to me because it shows clearly that very often it is possible for management to take the initiative, and management should take the initiative, in developing a sounder approach to even the economic aspect of labor relations.

Unfortunately, if we look at some of the industrial situations, in plants small and large, where labor relations have reached an impasse, we observe that too frequently neither side is in the frame of mind to conduct its negotiations on an intelligent, human basis; or, from the standpoint of the administrative managerial methods, the manner in which various conditions antecedent to the particular occasion have been handled may have left a strong atmosphere, indeed a habit of suspicion and mis-

nize that besides the economic problems there were human administrative problems was a cardinal error of our nineteenth-century economics.

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trust, with disastrous results to the two sides and to society. *It cannot be too often emphasized that if the workers come to the bargaining table without bitterness and with a heritage of respect and goodwill there is a better chance for settling individual issues.*

Now that industry is largely unionized it is more than ever important that there be no diminution in perfecting labor administration; for modern management methods are the most effective means of minimizing trifling irritations which are often symbolic of deeper resentments. A wise, attentive, considerate management is the best way of creating a favorable atmosphere for the settlement of economic issues in which the two sides may stand far apart.

Just at present, as in all periods of economic readjustment, we employers are overwhelmed by the economic phase—with collective bargaining and wage rates. But despite this preoccupation we must not forget the importance of the administration of every-day relations with the employees. The real difficulty of this administrative phase is that frequently it has been treated as a minor matter and not as a major problem. Too often employers have failed to realize that their responsibility as assemblers and organizers of manpower is just as great as is their responsibility in mechanical and financial and sales problems.

It is well that we itemize some of the administrative responsibilities to which employers, taking the initiative, should give special attention. In many cases there is a regrettable neglect of the modern personnel practices which have proved so valuable to some companies in establishing a human, satisfying relationship between the employee and the institution with which his life is joined. The employer must provide the sense that he is the leader and is furnishing the initiative in making his company an effective one from both the human and technical point of view. He must create a sense of *esprit de corps* and morale; and, above all, the employer must provide justice, opportunity and status. To satisfy these desires is an important part of modern employer leadership.

Justice is, of course, just the elemental idea of fair play. I am leaving aside the matter of wages, as this is the economic side of the problem. I am rather referring to the sort of justice

which should inhere in the daily relations between executives and their subordinates. The feeling that they are unjustly treated is often created by overbearing, tactless executives, higher up and lower down. In a large organization, officials must make certain that every superintendent and manager in that organization has a human point of view toward his problems. Harsh, inconsiderate executives should be eliminated, or persuaded to adopt a more constructive attitude.

When it comes to the matter of *Opportunity*, employers who are alive to the human problems in their organization do everything to make it possible for the workmen to grow and make use of any particular ability they possess.

Status is always prominent in the conscious as well as the unconscious motivation of workmen, as survey after survey has shown. One survey in the nature of a "Gallup" poll indicated that the chief desire of workmen was to have their jobs recognized as of some importance in the scheme of things. They wanted to feel that they "belonged".

An essential here is the matter of mutual understanding. The employer should explain to employees the conditions which face them both. Workers may have a vague feeling that some of the things they should like to have from industry are not attainable. But that is only a general feeling which may be belied by misconceptions regarding the course of the company's business. There is great value in making employees know what the problems of the business are, and what practical limitations are imposed by conditions which neither the employer nor workers can change in a given case. For example, if shutdowns or layoffs are necessary, the reasons and the procedure should be carefully explained either directly or through foremen. *I think in many plants industrial executives are appreciating the desire of the worker for mutuality of information as a prelude to mutuality of interest.* Above all, in every single operation within the plant, as any foreman or manager who knows his business can tell you, management should make clear just what is required as well as why it is required.

Then there is the matter of *Security*. Unfortunately the attainment of security of employment is largely determined by impersonal economic and financial forces which have an em-

ployer at their mercy. But there are various steps of an administrative nature that an employer can take within this general economic framework to straighten out the peaks and valleys of his employment; and in so far as he is ingenious and effective in this direction the employer has contributed to a profound need of a worker's existence.

Finally, we come to the matter of how far labor should participate with management in actual operation of industry. Here the economic becomes enmeshed with the administrative phase with a vengeance, and we are faced with the necessity of reconciling two seemingly divergent positions: on the one hand, there is the necessity of preserving the leadership of management which we have stressed so much as an integral part of the administrative aspect; on the other hand, there is the feeling on the part of union leaders that, as part and parcel of the economic protection of their constituents, they must set up rules and regulations involving such matters as grievances, length of work, seniority problems, matters of discipline, and procedures for suspension or discharge. Such regulations regarded as so essential by unions are regulations which management frequently feels put the brakes on their efficiency. This is more often the case when union leadership is irresponsible, ineffectual or shortsighted. Of course, these are principles of management efficiency and labor protection which must be reconciled and are being reconciled.

There is one danger to be avoided. Any regulations, contractual or otherwise, should be limited to the purely labor aspects of operating processes. Such regulations must not go so far as to encroach upon or intrude into wider management policies or responsibilities. Obviously, in any undertaking, economic or noneconomic, a dual and overlapping authority is calamitous. Personally, from what inquiries and observations I have made, I do not believe that unions really desire to intrude in these broader aspects of management.

Having determined the proper balance between preserving management leadership and providing adequate protective safeguards, we come to the spirit in which these principles are to be applied. It is essential that in practice management interpret its union contract in a constructive spirit and that, on the

other side, union leaders show an appreciation of making it possible for management to exercise its dynamic initiative.

A good deal has been said lately about the matter of labor-management committees. Obviously there is much room for enlisting the assistance of workers in constructive suggestions. The largest experiment in obtaining such coöperation in production was that promoted by the War Production Drive of the War Production Board. In 4,600 war plants and shipyards employing nearly eight million, there were set up so-called "Labor-Management Production Committees". More than two thirds of such committees were affiliated with unions and the rest were in plants having no unions. Some of these efforts were perfunctory, some of them were kept alive only by the stimulus of the emergency, but many proved that labor's help could be enlisted with great value in coöperative assistance and that such assistance need not interfere with or violate the principle of management leadership and control. In addition they furnish a useful by-product in promoting a psychology of understanding and goodwill.

While the initiative and responsibility of management must be preserved, there is a certain responsibility of union leadership. It must give every assurance that the spirit and letter of its obligations will be fully honored. The complaints from various industries that the union contract has given management insufficient protection against unauthorized stoppages, undisciplined actions by various groups and individual workmen unfortunately suggest that too often a small recalcitrant minority rather than the union and its leadership decides the fate of the plant. As far as possible—this may be a platitude but it is important—unions must strengthen management in maintaining discipline within the factory. Their function should be not merely negative, but also affirmative and constructive.

The aspect of our national life that I have just discussed—industrial relations and its economic, administrative and political angles—is clearly at the threshold of important developments. Business leaders and union executives will exercise far-reaching influence on the course of these developments. Their human understanding and leadership will determine what road we shall follow. The adoption by employers of effective leadership in their human relations, an appreciation by union executives of

the importance of that leadership, and a statesmanlike attitude by both in negotiating the economic aspects will mean much for our national stability. Even in these troubled times, by patience and wisdom a proper balance can be attained despite our difficulties of readjustment. I am hopeful that despite our present trials and tribulations progress will be made in this direction; for the constructive spirit—the spirit of give and take—is the genius of America.

REMARKS BY THE CHAIRMAN

CHAIRMAN WOLMAN: Our next speaker coined a word about twenty or twenty-five years ago, if I am not mistaken. At any rate, I am attributing to him the coinage of this word which is common usage in labor relations today. All college students of labor encounter this word and wrestle with the ideas that lie behind it. This word, or term, is union-management coöperation.

Our next speaker, the author of this term, Mr. Otto S. Beyer, will speak on "The Railway Labor Act".

THE RAILWAY LABOR ACT

OTTO S. BEYER

Consultant, Tennessee Valley Authority

THE best contribution that I can make to the consideration of the general topic, namely, "The Settlement of Labor Disputes", is to discuss first the main lessons taught to date by the operation of the Railway Labor Act, and, second, to appraise recent proposals for dealing with labor disputes in the light of these lessons.

The Railway Labor Act is the result of attempts initiated by the federal government, ever since 1886, to prevent interruptions to railroad service due to labor troubles. As the Act stands today, it applies not only to the railroads, the Pullman Company and the Railway Express Agency, but also to the commercial airlines. Over 37 general classes of employees, ranging from airline pilots and locomotive engineers to mechanics, clerks, trackmen, cooks and maritime workers, are subject to the Act. Over 47 unions, national in scope, affiliated with either the A.F. of L., the C.I.O., or with neither, have been designated by the employees for the purposes of the Act and all comply with its provisions irrespective of their affiliation and their alleged philosophies.

To my mind, the most significant feature of the Railway Labor Act is the positive duty it imposes on carriers and employees alike to "exert every reasonable effort to make and maintain agreements concerning rates of pay, rules and working conditions." Such effort is to be exercised through representatives designated by the parties without interference, influence or coercion by either over the other. As far as the employees are concerned a labor union may be designated by them as their representative. In order that employees may effectively select representatives, the Act assures them the right to organize into labor unions and prohibits railroad and airline companies, their officers and agents, upon pain of severe penalties, from interfer-

ing with this right. In this respect the Railway Labor Act goes much further than does the National Labor Relations Act.

The Railway Labor Act, like the National Labor Relations Act, makes provision for determining what labor organization is wanted as a representative by a given craft or class (bargaining unit) of railroad or airline employees for purposes of the Act. The National Mediation Board established by the Act, when its services are requested, is empowered to conduct necessary elections to make this determination. When a given organization is thus designated by majority vote of the employees concerned, the Act then contemplates that the carrier shall treat with this organization as the representative of these employees.

This mandate of the law, namely, for the parties to treat with one another or bargain collectively, is not restricted merely to the exertion of efforts to make and maintain agreements. The Act reads specific substance into this mandate. Thus, it provides that the duly designated representative of the party desiring, for instance, to make an agreement shall serve written notice thereof on the other party. The other party is thereupon required to acknowledge such notice within ten days, and, in addition, is required within thirty days to set a time and place for the representatives to meet and start negotiations. It is in the course of such negotiations that the representatives of the parties are expected to do their utmost to come to an agreement. There is no limit to the length of time conferences may take in which to come to agreement, but, should it appear to either party that further progress is no longer possible, then either or both may call upon the National Mediation Board to help resolve differences by mediation, or the Mediation Board, on its own initiative, if it finds that a "labor emergency exists" may assign a mediator. In either event a mediator, when he once gets into a case, is required to use his best efforts to bring the parties to agreement. Again, there are no limits as to the time a mediator may take to effect his purpose. Generally speaking, he is the judge as to the prospect of success of his efforts. Hence, should he conclude that no further purpose would be served by continuing mediation, then the law requires him and the Board, as their final action, to try to induce the parties to settle matters by arbitration. If this request is refused by either or both parties, then the Mediation Board is required to notify both that its efforts at

mediation have failed, and for thirty days after receipt of such notice no change may be made in the rules, rates of pay, working conditions, or established practices in effect at the time the original notice was served. If a so-called emergency board is set up, this thirty-day period during which rules, wages and working conditions are frozen is still further extended.

The provision of the Act dealing with the appointment of emergency boards comes into play when an emergency is threatened as a result of failure of the negotiators to get together. An emergency is defined as any action which will substantially interrupt interstate commerce to a degree such as to deprive a section of the country of essential transportation service. In the event an emergency is threatened, the National Mediation Board is obliged to notify the President of the United States, who, in turn, may appoint an emergency board consisting of one or more disinterested public persons. If he elects to do so, he issues an executive order declaring that a transportation emergency is threatened, creates an "emergency" board and admonishes the parties in his proclamation, pending the submission of the board's report and for thirty days thereafter, not to make any changes, except by agreement, "in the conditions out of which the dispute arose."

Kindly note that these boards are not designated as "fact-finding boards" nor do they have power to subpoena witnesses, records or company books. Neither may they administer oaths. Nor does the section of the law dealing with these boards say anything about not striking. Finally, no penalties are provided for failure on the part of the parties to observe the provisions of this section. Despite the absence of penalties, the record, since the original enactment of the Railway Labor Act, discloses no attempt by a railroad or airline to flout the direction of the law not to change the conditions out of which a dispute arose, nor an attempt by employees to leave the service, that is, strike, whenever the President intervened by appointing an emergency board. I also want to point out that the purpose of the Act in allowing emergency boards thirty days in which to report, plus an additional thirty days in which the parties may consider and act upon the reports, is not to enable them to "cool off". What the law expects of the parties is that they give the federal government a reasonable opportunity to look into the situation

when the parties themselves have come to the parting of ways, and to extend its good offices in a final effort to compose matters. Since apparently railroad emergency boards on the whole have done the fair and proper thing by the parties, they are not adverse to giving such boards time to find the answers to pending difficulties. In this connection it is interesting to note that since 1926, when the Railway Labor Act first became law, 77 emergencies have arisen in our railroads, which, in turn, led to the appointment of emergency boards. I should qualify that observation. About a year or so after the war started, some special arrangements by executive order were promulgated to the effect that emergency boards could be set up, despite the fact that no emergency was threatened. That is to say, they were set up upon appeal or request of the employees that a dispute existed which could not be resolved by mediation or arbitration. In round numbers, about half of these 77 boards were of that particular kind. If these special boards had not been set up, the situations which existed probably would have bogged down into strike threats and probably would have resulted in the appointment of so-called emergency boards under the provisions of Section 10. However, they were appointed, not because of any particular threat, but because of an appeal that had been possible under an executive order issued in order to make it unnecessary, before boards could be appointed, for the employees to threaten to strike if they thought they were not getting justice.

Of the 77 emergencies, 68 grew out of disputes involving wages and rules, five out of failure on the part of carriers to apply awards of the Railroad Adjustment Board, and four out of jurisdictional difficulties between two or more railroad labor unions. In only two cases did the parties subsequently fail to get together on the basis of recommendations of the emergency boards. One of these cases led to a strike because the railroad concerned was unwilling to consider the emergency board's findings. In the other situation, which involved a jurisdictional difficulty, one of the two unions concerned would not abide by the board's recommendation. In the latter case the federal government took possession of the railroad involved and is still in such possession. No strike, however, occurred.

As against the creation of 77 emergency boards in the life of the Railway Labor Act, the parties, by agreement, utilized arbitration in 143 cases for the purpose of securing the answer to their problems. I checked up the figures to see what the mediation record of the Mediation Board has been since its inception. It has averaged about 150 cases a year for twenty years. There have been nearly 3,000 cases settled by mediation. Of course, there are a great many cases that are settled by direct conference which are recorded with the National Mediation Board. In round numbers, I believe there are about 5,000 agreements that apply to the railroads and airlines and their employees determining their labor standards. The latest case settled by arbitration is the one decided in Chicago early last week involving over 1,100,000 railroad workers. The award granted a wage increase of 16 cents per hour. I understand the total effect on the pay-rolls of the railroads of that 16 cents per hour increase will be something like \$600,000,000 annually. Two other groups of employees, that is, the locomotive engineers and the railroad trainmen, however, presumably preferred to rely upon the emergency board procedure of the Railway Labor Act and a board has been created. As I am making these remarks this board is still conducting its inquiry.

Another feature of the Railway Labor Act requires brief mention. In the event a dispute growing out of the interpretation or application of a duly negotiated agreement or out of a claim for pay or out of a personal grievance is not settled in direct conference on a railroad, such a dispute is referable to a special joint agency located in Chicago known as the National Railroad Adjustment Board. It consists of an equal number of railroad management and labor representatives and is divided into four divisions. Each case goes to one of these divisions depending upon the class or craft of which the employee concerned in the dispute is a member. If the two sets of partisan representatives on such a division are unable to agree upon an award, then a neutral person may be designated by agreement between the partisan members of the division. However, if they are unable to agree, then a neutral person may be appointed to the division upon request of the National Mediation Board. Such a neutral person sits with the division, and, after reviewing the evidence, decides the case. Awards of the Adjustment Board are final and

binding except those involving money, which may be referred to the courts for further consideration.

Now what important lessons of value in the settlement of labor disputes has the operation of the Railway Labor Act to date taught? Perhaps the most significant one is the great importance of labor-management self-help as applied to a single large-scale industry in any organized scheme for maintaining industrial peace. Such self-help is a basic characteristic of the Railway Labor Act. The chief responsibility for making it work is not the government's. Except for interference by management with the right of employees to organize, the Act contains no penalties designed to enforce compliance with its terms. It is only in relatively exceptional situations, that is, when all direct efforts have failed, that the government intervenes for the purpose of assisting the parties, either by mediating or investigating or by the appointment of neutrals to boards of adjustment or arbitration to find the answers to their difficulties. Even in representation disputes among employees, the only function of the federal government is to conduct elections to determine the choice of the employees concerned. In no respect does the government act as a policeman or a prosecutor in connection with preventing railroad or airline labor disputes. It is a friend of both parties. All it asks, in the interest of maintaining industrial peace, is that the parties give the government a reasonable time to exercise its good offices if, as and when the parties themselves come to the end of their respective ropes.

Another very important lesson taught by the Railway Labor Act is that the general will or desire of both employees and managements to resolve recurrent differences cannot be superimposed from the outside like a blanket, but must develop largely within a given industry. A certain amount of broad guidance and stimulation from government sources, largely in the form of policy statements, is helpful, as it is and was in the case of the railroad or air transport industries. While such guidance in one form or another has been supplied for over fifty years in the case of the railroads, it really was not until 1926 (twenty years ago) that sufficient experience had accumulated and the mood developed for railroad management and labor to find it possible to get together on a relatively durable program to prevent labor relations failures. For twenty years now the Railway Labor

Act has worked, despite the difficulties imposed upon its operation during the war period, when, like so many other traditional institutions of our economy, it, too, had to bow temporarily to superior authority. Though the conflicts which ensued between those who exercised this authority and those who did the negotiating, mediating, investigation and wage determination on our railroads at times had painful results and even threatened to wreck the confidence that had been built up in the peacetime practices of the Act, all that is behind us now and the Act appears to be functioning normally again, that is, as before the war. This is evidenced chiefly by the fact that all wage problems which have arisen on both the railroads and the airlines since V-J Day are being handled in the orderly way contemplated by the Act. These problems are not being disposed of as they have been in the oil, automotive, packing, steel, electrical or agricultural machinery industries.

There is another general lesson to be learned from the functioning of the Railway Labor Act, especially in so far as the Act emphasizes the making and maintaining of labor agreements. The more the labor standards of a given industry are safeguarded by jointly negotiated agreements and understandings, the greater the equity of the employees covered by these agreements becomes in the economic welfare of their industry. This tendency makes for stability in labor relations. When seniority rights, work jurisdictions, promotion and demotion, hours, rates of pay, methods of wage payment, minimum earning guarantees, shift arrangements, starting time, vacations with pay, sick leave, and kindred labor standards become firmly established as a result of labor-management negotiations and are written into binding agreements, then the employees to whom they apply and their union spokesmen tend to think twice before they threaten to kick over the traces when differences of opinion over future terms of employment arise. Likewise, managers enjoying stable labor relations think twice before they start proceedings aimed at effecting drastic changes in established labor practices, with resultant disturbances to the morale of their forces. This stabilizing tendency can perhaps go too far and lead to a form of labor stagnation which may be worse than the labor turmoil which prevails in some industries. But the fact remains that well-negotiated and administered labor agreements

do lead to labor stability, and this is one of the outstanding constructive by-products of the Railway Labor Act to date.

Now as to the possibility of applying the underlying principles of the Railway Labor Act to labor-management relations in industry generally—frankly, I have my reservations. As already pointed out, the reason the Railway Labor Act works is that its operations are confined chiefly to one major industry, not a multiplicity of separate and distinct industries differing widely in their characteristics. The number of Class I carrier employees covered by the Railway Labor Act does not exceed 1,500,000 and the number of large carriers, both railroad and air, does not exceed 170. In addition, there are about 250 switching and terminal companies and 360 so-called short-line or Class II and Class III railroads, many of which are subsidiaries of one or more of the larger or Class I railroads. The number of national unions representing the 1,500,000 railroad and airline employees, as already pointed out, is less than fifty. The fact about the situation is that the managerial as well as the labor union picture from a numerical and hence a labor administrative standpoint is a fairly simple one. The corresponding picture of industry generally is infinitely more complicated. It would be very much more difficult, if not impossible, to generate in time as uniform an attitude toward a general labor relations policy for our industries as a whole as has been done for a single industry such as railroading and later air transport.

In this connection, too, the public service character of the railroad and air transport industries deserves consideration. For a long while railroading was perhaps the only outstanding public service activity with the continuous and effective performance of which the federal government was concerned. Hence, a high sense of public responsibility has grown up in the industry which now characterizes alike both managements and employees. Such a sense of public responsibility must first exist before employees and employers can be brought to feel deeply about the necessity or desirability of maintaining service or production.

Many proposals advanced in recent months, looking toward the prevention of breakdowns in labor relations, claim to be based on the principles and procedures of the Railway Labor Act. Thus, they would rely on a single administrator or a board

located in Washington to handle all labor mediation and conciliation problems irrespective of the industry in which such problems arise. One proposal, in addition, would set up a central arbitration board to which the parties to any labor dispute may, if they jointly agree, refer their differences for a binding determination. The President of the United States has advocated the appointment of *ad hoc* fact-finding boards with subpoena powers to investigate disputes which threaten seriously to affect the national public interest or domestic or foreign commerce. Such boards would make recommendations within twenty days as to solutions for the difficulties existing. During this period and for five additional days the parties would be prohibited from indulging in strikes, lockouts, or other forms of interference with service or production.

The latest plan for adjusting labor disputes out of the hopper is the one proposed by the United States Senate Committee on Labor and Education, as a substitute for the House-enacted Case Bill. This plan would simply set up a central Federal Mediation Board whose duties would merely be "to assist the parties to a labor dispute . . . to settle such dispute through conciliation and mediation," and further, if not able to do so, to "seek to induce the parties voluntarily to submit the controversy to arbitration."

All of these proposals, to my mind, have serious defects, and, despite the claim that they are patterned after the provisions of the Railway Labor Act, fall far short of profiting, as I see the situation, by the lessons taught by the operation of that Act.

In the first place, these plans not only apply to all industries other than railroads and airlines irrespective of the wide variations in the nature of such industries, but they call for centralized direction and administration from Washington. If labor and management in the United States are fed up on any one thing it is on the concentration in Washington of controls affecting their relationships. Extreme dislike for such centralization is a simple, normal, human reaction with which those who would maintain labor peace must reckon at this time if they would make progress in the acceptance of methods for establishing such peace.

As I see it such progress can best be achieved on a decentralized basis, that is, industry by industry, with the responsibility for devising a peace plan for each industry remanded to the

principals immediately concerned, namely, each industry's employers' association and its employees' national labor unions. Thus the scheme underlying the Railway Labor Act, which in essence is a labor relations code jointly developed by the national agents of the industry principally concerned, namely, labor and management, would find realistic application.

Another feature of the Railway Labor Act, conspicuous by its absence in virtually all recent plans for maintaining labor peace, is the mandate of the Act to both employees and carriers to make and maintain labor agreements. Almost all of them, except the Ball-Burton-Hatch Plan, merely seek to have a highly centralized agency encourage the parties to make agreements and to settle disputes by mediation or conciliation. This feature of these plans seems to me somewhat of a retreat from the eloquent findings of policy of the National Labor Relations Act which reads:

It is hereby declared to be the policy of the United States to eliminate the causes of certain substantial obstructions to the free flow of commerce and to mitigate and eliminate these obstructions when they have occurred by encouraging the practice and procedure of collective bargaining and by protecting the exercise by workers of full freedom of association, self-organization, and designation of representatives of their own choosing for the purpose of negotiating the terms and conditions of their employment or other mutual aid or protection.

There is no timid expression of hope here nor in that Section of this same Act which makes it an unfair labor practice for an employer *not* to bargain collectively with the duly accredited representatives of his employees. I submit that it makes a lot of difference in generating enthusiasm for carrying out a policy of Congress when that which is expected of the parties subject to the policy is stated in clear and unequivocal terms, as is done in the Railway Labor Act as far as the duty to make and maintain labor agreements is concerned. Having had some experience as a member of the National Mediation Board with inducing the parties to comply with this directive of the law, I speak a little feelingly on the subject. Whenever undue hesitancy manifests itself in coming to an agreement, the intent and purpose of the law can be cited with telling effect. No apologies

are necessary. To make an agreement under the Railway Labor Act is the law-abiding, patriotic thing to do.

Mention was made in the President's message to Congress last December of "fact-finding" and "cooling off" as devices for allaying labor disputes, the claim being that the Railway Labor Act had demonstrated the efficiency of such methods. But neither labor, industry nor Congress became enamored of the President's proposal. Here again, the point was missed by those who advocated it. As briefly pointed out, the emergency boards, for the appointment of which Section 10 of the Railway Labor Act makes provision, are not created for narrow fact-finding purposes, much as a regulatory commission such as the Interstate Commerce Commission would do in a rate case. Nor have railroad emergency boards power by law to subpoena records or witnesses or administer oaths. Furthermore, the Railway Labor Act is relatively silent as to what employers or unions may not do after an emergency board has been appointed. The only way the legal effectiveness of Section 10 of the Act can be established, by way, for example, of prohibiting strikes subsequent to the appointment of an emergency board, is by court action, and the occasion for such action has never arisen. In other words, despite the silence of the Act on this score, threatened strikes have always been suspended indefinitely when the President issued an emergency proclamation and appointed a board. Eventually, after the boards made their reports, and the parties had a chance to resume negotiations in the light of the recommendations of the board, they have in all but two out of 77 cases come to an agreement, so that eventually strikes which were threatened were called off entirely.

The most fundamental reason for the success of the Railway Labor Act in the maintenance of labor peace is that it is primarily the product of the labor and management representatives of the transportation industries to which it applies, which product has been taken to Congress and enacted into a law which in reality is a code of good labor relations employing no legal sanctions or penalties for failure to observe its provisions. Compliance with these provisions is left to the sense of responsibility, the concern for the public welfare and the conscience of the principals concerned. It works because over the years the policy of the government in respect of the control of railroad labor

disputes has operated to bring precisely this attitude on the part of the principals into being.

That this attitude can be developed in another industry is demonstrated by the success which has accompanied the application of the principles of the Railway Labor Act to the air transport industry and more recently to the Tennessee Valley Authority and the Bonneville Power Administration. In each of these situations the parties settle their differences and come to agreement in keeping with principles and procedures broadly analogous to those of the Railway Labor Act.

How can similar dispensations be realized in other industries? The way this cannot be done very satisfactorily is by the enactment of a general law that would lay down a universal code for the maintenance of good labor relations for all industries alike, whether such industries are national in scope or local in coverage, such as street railway transportation, drayage, or hotel and restaurant operations. The idiosyncrasies of each industry must be taken into account if labor peace is to be developed in these industries. That is to say, each industry, through its employer and labor spokesmen, must be encouraged and given constant opportunity to develop its own code of good labor manners. I firmly believe a national policy, promulgated by law, can be devised to accomplish precisely this end. The specifications of such a policy are another matter.

REMARKS BY THE CHAIRMAN

CHAIRMAN WOLMAN: If you listened closely to Mr. Beyer, as I did, you will recall that he was very careful, when he was referring to these various railroad boards, to point out that they were not fact-finding boards. There was a note of concern in Mr. Beyer's voice when he mentioned fact-finding boards. That is a queer situation. Here is a very important function, the finding of facts, and yet the exercise of this function seems to have become the subject of profound dissension in this country.

Well, I haven't read his paper, but I think the next speaker is going to tell us why that is so.

I have great pleasure in introducing Professor John T. Dunlop, Professor of Economics at Harvard University, who will speak on "Fact-Finding in Labor Disputes".

FACT-FINDING IN LABOR DISPUTES

JOHN T. DUNLOP

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THERE is general agreement that in the settlement of disputes the parties first should negotiate their differences. Conciliation and mediation should then be tried. As a part of this process the parties may be requested to arbitrate their differences. The current debate over machinery for the settlement of disputes concerns the steps to be taken after a dispute has failed to yield to these methods.

No two labor-management disputes are identical. There are wildcat strikes, and there are carefully planned stoppages over the terms of new contracts. There are disputes over the interpretation of contract clauses and over issues outside the scope of the agreement. There are jurisdictional disputes, sympathetic strikes and "hot cargo" difficulties. There are disputes in public utilities and in industries less affected with public interest. There are stoppages, slowdowns, and other forms of interruptions to work. The machinery to implement the settlement of disputes must be tailor-made to the particular dispute. No rigid procedure can be adequate for all situations.

An appraisal of the rôle of fact-finding requires a definition of the types of situations in which this particular machinery, rather than any other, can be most effectively used. The operating question is to decide in particular cases when to use fact-finding rather than another instrument.

I

First, let us briefly examine the history of fact-finding. A distinction must be drawn between fact-finding as post-mortem and fact-finding as a step in the settlement of a live dispute. A great many boards have been established to study the origins of particular disputes (for example, the Pullman Strike Commission, 1894, and the Colorado Coal Strike Commission, 1913).

As a step in the settlement of a dispute, Section 10 of the Railway Labor Act provides for the appointment of a board which "...shall investigate promptly the facts as to the dispute and make a report thereon to the President within thirty days from the date of its creation." It may be noted that this language does not provide explicitly that the emergency boards shall make recommendations, although this has been their practice.

In 1939 Minnesota enacted a statute providing that the Governor may appoint a tripartite fact-finding board to make recommendations in a dispute "affected with a public interest."¹ There have been over 170 boards appointed in the experience of this statute.² New Jersey has recently provided for the establishment of fact-finding boards in disputes involving utility services.

At the Labor-Management Conference in November 1945 a fact-finding proposal was developed among the management delegates.³ The proposal provided that, in case of a national emergency involving the national health or safety, the President be empowered to appoint a fact-finding commission. In cases affecting a state, the governor should be empowered to appoint a fact-finding commission. These commissions should make only findings of fact but no recommendations. Since the labor

¹ "If the dispute is in any industry, business, or institution affected with a public interest, which includes, but is not restricted to, any industry, business, or institution engaged in supplying the necessities of life, safety, or health, so that a temporary suspension of its operation would endanger the life, safety, health or well-being of a substantial number of people of any community, the provisions of Section 179.06 [Notice of Intent to Strike or Lockout] shall apply and the labor conciliator shall also notify the Governor who may appoint a commission of three to conduct a hearing and make a report on the issues involved and the merits of the respective contentions of the parties to the dispute." (Section 179.07) *Minnesota Labor Relations Act*, "Rules and Regulations for Proceedings Under Minnesota Labor Relations Act", p. 22, January 2, 1946.

² For the period April 24, 1939-June 30, 1945, the annual reports indicate that 171 boards were appointed and that fact-finding reports were made in 122 cases.

³ *The President's National Labor-Management Conference*, November 5-30, 1945, Bulletin No. 77, Division of Labor Standards, U. S. Department of Labor, 1946, pp. 24-28, and *The President's National Labor-Management Conference*, Volume I, pp. 44-47 and 53-56.

and management delegates were unable to agree on any particular proposal, the Conference under its rules made no report.

Following the Labor-Management Conference, the President submitted to the Congress on December 3, 1945 a proposal for the establishment of fact-finding boards in disputes "in important nation-wide industries".⁴ The proposal was incorporated in

4 "I recommend that for the settlement of industrial disputes in important nation-wide industries there be adopted the principles underlying the Railway Labor Act. The general pattern of that act is not applicable to small industries or to small local disputes in large industries. But it would be effective, as well as fair, in such wide-spread industries, for example, as steel, automobile, aviation, mining, oil, utilities, and communications; I do not intend to make this list exclusive. Nor do I think that local inconsequential strikes even within these industries should be included. The objective should be to cover by legislation only such stoppages of work as the Secretary of Labor would certify to the President as vitally affecting the national public interest.

"In industrial disputes in such industries, where collective bargaining has broken down and where the conciliation service of the Federal Government has been unable to bring the parties to agreement and where the Secretary of Labor has been unable to induce the parties voluntarily to submit the controversy to arbitration, I recommend the following procedure:

"Upon certification by the Secretary of Labor to the effect that a dispute continues despite his efforts and that a stoppage of work in the affected industry would vitally affect the public interest, the President or his duly authorized agent should be empowered to appoint within five days thereafter a fact-finding board similar to the emergency board provided for under the Railway Labor Act.

"I recommend that during these five days after the Secretary of Labor has made the above certificate it be unlawful to call a strike or lockout or to make any change in rates of pay, hours or working conditions or in the established practices in effect prior to the time the dispute arose.

"The board should be composed of three or more outstanding citizens and should be directed to make a thorough investigation of all the facts which it deems relevant in the controversy. In its investigation it should have full power to subpoena individuals and records and should be authorized to call upon any Government agency for information or assistance. It should make its report within twenty days unless the date is extended by agreement of the parties with the approval of the President. The report should include a finding of the facts and such recommendations as the board deems appropriate.

"While the fact-finding board is deliberating and for five days thereafter it should be made unlawful to call a strike or lockout, or to make any changes in rates of pay, hours, working conditions or established practices, except by agreement.

"The parties would not be legally bound to accept the findings or follow

a bill introduced into the Senate on December 6, 1945 (S-1661) by Senator Ellender. In the absence of supporting legislation, the President or the Secretary of Labor has appointed, as of April 11, 1946, fact-finding boards or panels in nine recent disputes.⁵

II

Let us next turn to a fundamental question concerning the theory of fact-finding. It is frequently held that facts so speak for themselves that the mere setting forth of facts leads to obvious conclusions and recommendations. This view of finding facts eschews what is called "speculation and estimation of the future". A widely publicized editorial contrasted proper fact-finding with the "speculative business of forecasting future output and production efficiency and appraising the ability to pay of the companies involved."⁶ But is not this view of fact-finding naïve positivism?

It is a well-recognized conclusion of philosophic inquiry that knowledge of fact and theory cannot exist separately. "Rid yourself of every theoretical preconception, and knowledge of fact is banished also. Because some theory is the indispensable medium through which we apprehend fact, it would appear impossible to grasp facts in their integrity, undistorted and undisturbed by the intrusion of theory."⁷

Perspective must enter into fact-finding in industrial disputes in at least three different ways. First, there is the necessity to choose units of measurement for wages and prices and profits

the recommendations of the fact-finding board, but the general public would know all the facts. The result, I am sure, would be that in most cases, both sides would accept the recommendations, as they have in most of the railway labor disputes." President's Message to Congress, December 3, 1945.

⁵ Fact-finding boards or panels were appointed in the following cases: General Motors, Oil, Steel Producing Subsidiaries of the United States Steel Corporation, Meat Packing, Greyhound Bus, International Harvester, Non-Ferrous Metal Companies, West Coast Longshore Industry and Sugar Companies. See H. M. Douty, "Wage Policy and the Role of Fact-Finding Boards", *Monthly Labor Review*, April 1946; and Bryce M. Stewart and Walter J. Couper, *Fact Finding in Industrial Disputes* (New York, 1946).

⁶ "The Failure of Fact-Finding", Editorial 44, McGraw-Hill, January 1946.

⁷ George P. Adams, "Fact and Perspective", *Studies in the Nature of Facts*, University of California Publications in Philosophy, 1932, p. 205.

and other such economic categories. It makes a great deal of difference whether wages are measured by annual earnings, weekly earnings, gross hourly earnings, straight-time hourly earnings, urban wage rates, general wage-rate changes, and a great variety of other possible measures. Second, perspective must involve the selection of certain facts as more important than others. While all facts may be born free and equal, the process of choosing and sorting the more important from the less important is the essence of fact-finding in its narrow sense, exclusive of a recommendation. Third, a point of view is decisive in the process of formulating a recommendation. If a fact-finding board is to do more than summarize its findings of fact, perspective will undoubtedly play a major rôle in reaching a conclusion on a specific cents-per-hour adjustment or on a specific contract provision.

Any recommendation to apply to the next contract year must make an appraisal of conditions likely to prevail. Facts alone relate to the past or to other persons' estimates of the future. Any recommendation which is based rigidly on facts of a previous period is bad "speculation", for it assumes that the future will be identical to the past. A recommendation which is formulated with overt guesses of various elements relevant to the future is apt to be a better recommendation than one which pretends simply to be based upon the "facts", which necessarily can relate only to a past period.

Because of the great importance of points of view in formulating recommendations, the principles and standards used in drawing inferences from the facts should be made explicit. Ideally labor and management might agree upon principles of wage determination in peacetime.⁸ In the absence of such agreement, recent fact-finding boards have had no explicit set of principles to guide their deliberation. Wage stabilization regulations since August 18, 1945 have never claimed to be synonymous with principles of wage determination.

Let there be no naïve view, therefore, that fact-finding with or without recommendation is essentially the finding of facts

⁸ "The major difficulty in marshalling facts to resolve wage disputes is that there are no agreed-upon principles to determine the levels at which wages should be set." "The Failure of Fact-Finding", Editorial 44, McGraw-Hill.

untainted by a point of view. Brute fact and perspective are inextricably bound together.

III

What is the rationale of fact-finding as a device to settle disputes that have not been amenable to mediation and voluntary arbitration? In his testimony before the Senate Committee on Education of Labor on December 12, 1945, the Secretary of Labor stated: "Experience has shown, however, that compulsion is not necessary in order to secure substantial acceptance of the recommendations of boards such as are proposed in this Bill. The general public interest in seeing that the recommendations of such a board are accepted will be a sufficient guarantee in most cases of such acceptance, if the boards are provided with authorization sufficient to enable them to report findings and recommendations which are based on a solid factual basis."

The rationale seems to be that, in a limited number of disputes in which a threatened interruption of work would "seriously affect the national public interest", a fact-finding report and recommendations serve through public opinion to force a settlement. The report and recommendations serve to focus, channel and direct public opinion. The acceptance by one side of the recommendations is presumed to marshal the force of public pressure upon the side which has refused to accept the report. Now, how valid is all this?

If fact-finding boards are appointed only in cases of major national concern, why is it necessary to establish a fact-finding board to set forth the facts? These are the types of disputes which the press is bound to cover most completely and most accurately by the assignment of experienced staff.

In these cases the parties are most apt to use the radio, paid advertisements, and pamphlets to set forth their view of the facts of the dispute. The reply may be made that the function of the board is to sift the conflicting claims of the parties and inform the public as to the "true facts". But such public debate over "the facts" has usually been about reserves, profits, and the amount of wages and salaries. Differences over these items normally turn out to be differences over the appropriateness of various concepts and measurements. Profits calculated

in one way are appropriate to tax purposes; calculated in another way they are used for purposes of price control. What measure of profits is relevant to wage-rate decisions? One measure of wages is relevant to the well-being of workers, another to the task of wage stabilization, and still another to the estimation of labor costs.

It would appear very difficult for a fact-finding board or the press ever to make clear the diversity of such measures or the appropriateness of each. Furthermore, it is doubtful how much the general public really wants to know of the facts. Public reaction is more akin to the entertainment of a fight, the spirit of the arena, than any intellectual curiosity. Indeed, how much more does the public now know of the profits of General Motors or the loss of take-home of the employees than it did before the fact-finding report? How much better is it able to judge the appropriateness of the principles of "ability to pay" or "loss of take-home" to wage determination? These questions imply no special criticism of the particular board. It would be of interest to have a public opinion poll conducted to determine just how much the public knows of the findings of fact and recommendations of recent fact-finding boards.⁹

It would appear that recommendations of a board rather than any findings of fact or argument represent the locus upon which public opinion must play to secure settlement of a dispute. But just how is public opinion to force acceptance of a recommendation of the board? What is its *modus operandi*? Is it presumed that consumers will boycott the "guilty" party? But what happens in industries which do not sell directly to the general consuming public? Is it through the threat of legislation that public opinion may be roused if one side or the other refuses to accept a recommendation? While this mechanism may be real in certain cases, it may be quite remote to a particular dispute. Is the recommendation to be accepted because columnists and editors are apt to shake their finger at the recalcitrant side? But there are usually enough columnists and editors to support both sides. These questions are not susceptible to ready answers, but they suggest that the mechanics by which a fact-finding

⁹ The fact-finding reports have perhaps received much less attention than the position of the parties.

recommendation be adopted are not altogether clear. It is probable that the acceptance of a fact-finding report rests very much more upon the way in which the board has judged the position and reaction of the parties than upon public opinion.

IV

How do fact-finding boards operate in practice? The parties may be normally expected to present to fact-finding boards the whole range of available information on a particular issue in dispute. The available statistical series and other forms of data are frequently so limited that all the readily available material is presented to the board by one side or the other.

Consider a typical dispute regarding the wages. One side may present data from two or three different sources showing changes in wage rates, straight-time average hourly earnings, gross hourly earnings, and wages in a group of other industries or localities which are urged as an appropriate norm. The other side may counter with data on average weekly earnings or average annual earnings and wages in another group of industries or localities. In this way the board will normally have virtually all the possible data. There are just so many basic sources of wage data, however defined and however measured, that have been collected and tabulated in any given situation.

In the practice of fact-finding boards one may probably sharply distinguish between the operation of gathering and summarizing the contentions of the parties and the available evidence on the one hand and the process of formulating a recommendation on the other. The two processes go on naturally at the same time in the minds of the fact-finders. But there is probably less relation between the two steps than is normally presumed.

Should fact-finding boards base their recommendations uniquely on the evidence before them, or should they attempt to reach a conclusion which the parties would have reached had negotiations successfully continued? To what extent should fact-finding boards be concerned with the acceptability of reports by both sides? To what extent should proposed recommendations be cleared with each side?

It may be helpful in approaching these questions to distinguish between the process of drawing comments and reactions from

the parties, and actually bargaining with one side or the other. The acceptability of a finding may frequently depend upon whether or not it runs "against the grain" of the parties. Frequently this is a matter of expression, of emphasis, and of symbols which are to be understood only in terms of the history of bargaining of the parties and their concern with the implications of findings for future negotiations. In this sense it may be important to secure reactions from the parties. From this point of view a tripartite board is much to be preferred to an all public board.

In practice fact-finding boards act in part as arbitration tribunals and in part as mediation bodies. The mixture depends upon the case, the objective situation of the parties, and the particular board.

V

How shall one appraise the place of the instrument of fact-finding in the whole arsenal of the machinery to settle disputes? Some types of issues and disputes lend themselves to this device and others clearly do not.

Issues which are highly technical and peculiar to the specific industry are probably not ideal for fact-finding.¹⁰ Issues primarily involving conflicts of basic principle, such as the form of union security, the organization of supervisory personnel, or a welfare fund, in general would seem to constitute a further class inappropriate for fact-finding. Disputes which affect only a small number of employees or which do not immediately affect the public safety, convenience, or health are probably not amenable to the fact-finding procedure.¹¹

The *ad hoc* fact-finding board is a poor device to formulate general policy. The War Labor Board developed its policies

¹⁰ The panel in the recent *Harvester* case found that many details of the contract demands relative to the wage structure—including the incorporation of general wage-rate increases into the piecework basis, the revision of labor grades, the procedure for setting piecework prices, and the allowance rules for pieceworkers—were beyond the province of a generalized fact-finding board.

¹¹ "I believe that the procedure should be used sparingly, and only when the national public interest requires it." President's Message to Congress, December 3, 1945.

through a series of cases. The fact-finding procedure with *ad hoc* boards has not permitted the same type of coördinated experimentation and perfection of policy.

The area of application of fact-finding may be approached affirmatively. As a suggestion for further discussion, the following conditions are virtually necessary for the use of the device of fact-finding when conciliation and voluntary arbitration have failed to yield a peaceful settlement: (1) an interruption of work would significantly and immediately affect the public interest; (2) the issues are reasonably limited in number and sufficiently nontechnical to be amenable to examination by a general panel; (3) the issues must involve conflicting claims as to fact, or emphasis upon different facts or principles rather than a simple out-and-out clash of principle.

The device of fact-finding may be especially useful in three situations which have met the above conditions: (a) in the event seizure has taken place and some method must be found to determine the appropriateness of a change in the terms and conditions of employment; (b) in order to save face for one of the parties, particularly when the risks of arbitration may be too high; (c) in the event that it must appear that the government is "taking action" in a dispute in which further mediation or other plans may settle the dispute.

While fact-finding may be a useful tool in the limited types of situations just defined, it constitutes a serious threat to the development of mature collective bargaining. Whenever either party hopes for a better break from this form of government intervention than can be achieved under collective bargaining, an immediate agreement is impeded, and the longer-run development of collective bargaining suffers. The parties too easily learn to shift responsibility for difficult decisions which they alone should make.

There are a few situations, no doubt, where the short-run gains in industrial peace overbalance these longer-run costs of fact-finding. There may even be rare cases in which mature collective bargaining may be encouraged by fact-finding. On balance fact-finding is a double-edged sword to be used with great care and caution only in the exceptional case.

REMARKS BY THE CHAIRMAN

CHAIRMAN WOLMAN: Our next speaker has wandered over the world talking to people, looking at practical situations. He has written books on unemployment, and other labor problems. He has arbitrated labor disputes. He is Professor of Economics at Yale University.

I know of no one better qualified to close this discussion than Professor Bakke. It is with great pleasure that I introduce Professor E. Wight Bakke who will speak on "How to Promote Labor Peace".

HOW TO PROMOTE LABOR PEACE

E. WIGHT BAKKE

Sterling Professor of Economics, Yale University

THE achievement of labor peace is not premised upon the immediate disappearance of conflict. It is not unreasonable to suggest, however, that the conflict can be conducted in an atmosphere of mutual respect and without resort to the methods of open and violent warfare.

The conflict of interests among workers, union leaders and management is rooted deeply in the objectives, responsibilities, functions and traditions of each; it arises from a difference in economic and social status to preserve or improve which the parties have developed different ways of life, supported by different philosophies, folklore, symbols, slogans and codes. Even when they use the same words, the meaning for each differs, for the meaning is built from the facts of life which they experience. When management, union leaders, workers use the words "wages", "production", "profits", "justice", and others, they fill the words with content that bears the mark of their own way of living. The conflict over wages for instance is not merely a battle over a particular rate, but a competition among three patterns of life in one of which wages are items on the cost sheet, in another are the foundation of living, and in the third are one focus of a service rendered.

Peace in industrial relations is best defined, in Sumner's phrase, as a state of antagonistic coöperation. Parties with different interests recognize their mutual dependence upon each other, agree to respect the survival needs of the other, while pursuing their own interest, and to adjust their differences by methods which will not destroy but rather improve the opportunities of the other.

The conditions required to accomplish such a result are many and complex. I have time to discuss only one; but I think it is basic. It is this: that each party shall understand thoroughly the kind of a job the other has to do, his convictions about what

is necessary if he is to do that job well, the way in which the nature of the job and these convictions compel him to act as he does; that each shall see to it that his action based on that understanding does not threaten the survival of the job or the organization with which the other identifies himself.

Why is that condition basic? Because men will not coöperate with those whose actions, they believe, threaten their survival. They may possess the skills and the brains to work out satisfactory arrangements, but they will not use them for that purpose. Because arrangements for reducing conflicts, whatever they are, do not have a chance to succeed unless they are geared realistically to the basic jobs the parties are trying to do. Because agencies such as mediation and arbitration bodies will not be used willingly and with confidence unless they are compatible with doing those jobs well. Because codes and laws will be resisted at best and short-circuited and disobeyed at worst if they are inconsistent with the fundamental survival needs of those whose actions are governed.

I am convinced that a lack of such understanding is at the root of most of the specific difficulties between management and unions. The leaders in both camps do not understand the full range of problems faced by the other. They do not comprehend the real nature of the institution which the other represents. They do not know the traditions, the folklore, the codes which condition the behavior, nor the legitimate ambitions which motivate the conduct, of the other. They may assert that they do, but their actions frequently belie the assertion. Union leaders and management alike are expecting the other to follow paths they are convinced they cannot travel and survive.

I am not talking about physical survival. That alone is not what men are willing to fight for in a civilized community. They will fight to preserve the opportunities for reaching their goals: the respect of their fellows, economic security, control over their own affairs, understanding, and integrity. They will fight to preserve the kinds of organizations and institutions which provide them with those opportunities. They will fight to preserve the kinds of practices and techniques which they have developed to overcome obstacles and exploit those opportunities. They will fight to preserve the ideas, the symbols, the ritual which reinforce such behavior and make it "right" in

their eyes. The survival of that whole structure of living is what men mean by survival.

When it is threatened they do not want peace until the threat is removed. The basic conflict between unions and management arises from the fact that the leaders of each group are trying in every negotiation not merely to settle a specific problem. They are trying to settle it in a way that preserves their own structure of living intact; and an important part of that structure is the organization through which they work. Putting it differently, both are expecting peace on terms consistent with the maintenance of their own sovereignty. Management expects peace when unions become the kind of organizations which do not challenge what they call the principles of sound management. Union leaders expect peace when management operates in a way which does not threaten the existence of strong and effective unions, in a way which is consistent with what they call the principles of sound unionism.

Each has convictions about what those principles are. The convictions have been produced by experience. The experience is shaped by the job each has had to do. The jobs were not the same. They frequently were in conflict. They still are.

I have time only for the briefest summary of the most important of these convictions. For more ample treatment I shall have to refer you to a forthcoming publication of the Yale Labor and Management Center.¹

What are management's convictions about the principles of sound management of industrial relations? What are the union leaders' convictions about the principles of sound unionism? What does each believe essential, if their respective organizations are to survive? Are the convictions compatible with each other? If not, can they be modified so that they are? Let us lay them side by side and face the facts. That is the first step in achieving peace in labor relations.

The first major difference between management and unions arises from a focus of interest. Management's focus is on the welfare of a particular company. The union's focus is on the welfare of the employees of many companies. The immediate

¹ Bakke, E. Wight, *Mutual Survival: The Goal of Unions and Management* (Yale Labor and Management Center, New Haven, 1946).

achievement for which any management is rewarded is the economic success, not of the world, the nation or the industry, but of a particular firm. Any concern it has for these wider achievements must be implemented by methods which contribute to the welfare of that firm. The immediate achievement for which union leaders are rewarded is the improvement of the conditions of workers throughout their jurisdiction; and in order to maintain a group solidarity throughout the organization, the relative achievements for local groups cannot get too far out of balance.

Management's *basic* interest is vertical. The union leaders' *basic* interest is horizontal. Both have to govern their actions accordingly in order to survive. Management has to insist on examining every proposal made by the union primarily from the point of view of its effect on the profitability of the particular company. Unions have to chart their course by reference to a more generalized test: Where will this course lead us in our attempt to raise the standards of workers throughout our jurisdiction and to increase the power of our organization as an instrument for doing that?

The hope for labor peace lies in the fact that the basic interest for each is an important secondary interest for the other, and that this secondary interest can be neglected at their peril.

The second basic conflict between management and unions arises from the fact that good management involves a large degree of freedom and discretion while good unionism involves regulation of management and workers. Management functions consist not only in planning a course of action, but in manipulating factors of production, including labor, whose character and relationship over time cannot be precisely predicted. All sorts of unexpected and unpredictable situations arise. They must be met on the spot. The man or men responsible for that job have to have a considerable amount of free play in the rope. They are impatient with regulations which tighten the rope.

A union is, however, basically an employer-regulating device. It seeks to apply rules to his action, as one union leader said, wherever that action affects the welfare of the men. Such action covers a broad area. Is there a single managerial action which is outside of it? The necessity for management freedom arising

from the very nature of its job runs head on into the necessity for union regulation of management arising from the very nature of its job.

It is probably natural that in the initial stages of this conflict each party should challenge the other with the slogans of "management prerogatives" and "union rights". But labor peace will not be promoted by a battle of slogans. The first job to be done requires each party to study the job of the other. What kind of functions can be shared, what kind have to be shared in order to deal with all the relevant facts, what kind can best be done by specialists trained for their craft? In the last case how can these functions be carried out without curtailing the efficiency of the other party? It will be well for both management and labor leaders to realize that they cannot accomplish even their individual objectives unaided. Once a union is geared into the enterprise, a weak management handicaps a union, and a weak union handicaps management. If either party expects the other to act so that his own position and efficiency are improved, it is only common sense to grant the other the same privilege and act accordingly.

The third conflict between management and unions arises from the necessity on the part of each to develop a loyalty among workers to the firm on the one hand and to the union on the other. When the union wins an election in a plant how many times has management said, "We *lost* the election!" Consider in how many cases union leaders have contrasted a "good union man" with a "company man". Each is building his own team for his own purpose. As long as the objectives of the two teams bring them into competition, it is hard for the leader of either one to believe that a man can at the same time be a member of both. The conviction is increased when either leader attempts to develop loyalty and solidarity by destroying confidence of workers in the other. There is no point in dodging the fact that both management and unions have to develop loyalty among workers in order to function at all. The most ancient of techniques for developing loyalty is to convince men of the necessity of uniting against an opponent who is a threat to their interests. Nor is it wise to forget that management and unions have in the past conducted themselves in a way which provided the other with evidence which could be used for this purpose.

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Moreover we are not far removed from an era of civil warfare in which unions and management were at each other's throats. Competition for loyalty was inevitable. But it does not promote labor peace.

It will continue, however, to the degree that unions and management are doing different jobs that bring them into competition. One would expect it to decrease to the degree that unions become interested in and are admitted to genuine participation in increasing productivity—that is, to the degree that unions and management become partners in doing the same job—for loyalty is a by-product of participation.

Finally management and unions govern their actions by reference to different codes. The code of each is geared to the kind of an organization it is, to the job each has to do. The code of management represents the survival of rules which have proved expedient in dealings between manufacturing concerns, banks, insurance companies, shipping companies, dealers and similar organizations. The people involved in such organizations are engaged primarily in making and exchanging commodities for economic gain. They are held together by the processes of hiring and firing, by the giving and withholding of economic rewards. They are organized on the basis of a hierarchy of authority which is maintained in large part by the ability to provide or deny access to economically useful things and services. The rules essential to the maintenance of such an organization are business rules. Men who observe them are "businesslike", those who do not are "unbusinesslike".

Because the fundamental job of industry and business is what it is, the code is dominated by such items as these: free acceptance or rejection of proposals with no compulsion or duress involved, reduction of understandings to binding contracts, ability of those who act as agents to hold those whom they represent to the contracts made, failure to make good on a contract punishable by penalties ultimately enforceable in the courts.

Employers expect unions to be "businesslike". That is the chief meaning of their challenge to be "responsible". What they are saying is: "You should follow the rules of business."

Now to the extent that the union's activity is a business operation, and much of it is just that, the challenge is not an unreasonable one. How can labor peace be built on any other founda-

tion? The question answers itself. Business operations must be conducted according to business rules, as long as the rules are consistent with the public interest.

But the process of getting all parties to such operations to act accordingly must take account of several factors. The first is that a code is acceptable only if action in line with it is rewarding. It is rewarding if it enables a party to accomplish his objectives and do his job well. These objectives and requirements for effective action grow out of the very nature of the institution through which he works.

The business code is acceptable to management because, since they work through institutions which have business objectives and which require them to perform primarily business tasks, the following of business rules is rewarding to them.

How does the matter stand with the union leaders? Do they represent organizations that in objectives, traditions, practices and philosophy are purely business institutions? Certainly they have business functions to perform. But do they not have characteristics which are bound to modify the possibility of wholehearted and consistent action in accordance with business rules? Consider briefly these facts about unions.

They are part of a working-class movement. A movement is not a business. Its members are bound together by traditions of struggle and martyrdom, by sentiments that have no counterpart in the world of business.

They are pressure and power-wielding organizations designed to change the balance of economic rights, whereas a business operates to gain economic advantage within the framework of established rights.

They are organizations designed to battle for the right to exist and to be ready to counter any move which threatens that existence. How easily the words "struggle", "fight", "battle" fall from the lips of labor leaders! Those are not just words in their vocabulary. They are symbolic of their conception of the nature of their job. They are words made vivid by experience in doing that job. They are definitions of activities that appear to be "common sense", for "common sense" is a mirror of "common experience".

Most important of all, unions are political organizations in their internal structure. If management had to get the consent

of its stockholders for every major decision it made; if it had to involve them in day by day activity to implement those decisions; if stockholders had the power to express their dissatisfaction by withdrawing their capital from the business instead of selling their stock to someone else; under those circumstances management would have to develop the same political strategies with respect to stockholders as union leaders have to develop with respect to union members.

Would not such a situation provide most difficult problems for management in being able to be responsible in the making of binding contracts, and in being able to deliver on those contracts?

There is no short cut to the development of a strong, disciplined and responsible political organization unless adherence to democratic procedures is abandoned. In the meantime much that is referred to as personal irresponsibility might better be labeled as the inadequacy of a political organization which has not yet become solidified and adapted to the task at hand.

This comment is not intended as a justification of such inadequacy. Union leaders themselves recognize that as one of their major problems. But if one wishes to develop relations between unions and management which will promote labor peace, he will do well to recognize the basic nature of the institutions whose relations are involved. They will have to be made to fit together as what they realistically are, not what someone would wish them to be. One thing is certain, neither party can hope that the other will be re-created in his own image.

Labor leaders and management have different jobs to do. They work through different sorts of organizations. They have been trained and have acquired their standards from a different school of experience. Their immediate objectives are often not the same. One of their major tasks is to influence the action of the other. They have a large area of common interest, but that area is not large enough at the present time to guarantee labor peace. The area will be decreased if they fight for survival in ways which threaten the survival of the other.

That is why it is so important that each shall know the kind of a job and institution through which the other works, and how his position, traditions and objectives compel him to act as he does; to know what the other's convictions are about what con-

tributes to and what endangers survival of these; to recognize that these convictions grow out of experience and will change only when that experience changes. Such an understanding is a cornerstone of mutual respect, and mutual respect is essential to peace. Given that, they can use their brains and their powers to create a relationship in which both can survive the process of resolving conflicts between them.

Mutual survival is their major common objective. I am convinced that two such giants as organized labor and organized management cannot thresh around in a struggle for dominance within the delicate mechanism of the American economy and American democracy without bringing the whole structure down upon the heads of all of us. If they do that the public demand for regimentation of both in order to avoid the prospective chaos will be irresistible. Such a demand will threaten the survival of free unions, and free management alike, and will herald the destruction of free enterprise and a free society.

Such a result need not happen. But it is bound to happen if men in management and unions forget their common aim of *mutual* not separate survival. Those who do forget will come perilously near to the type of person Santayana defined as a fanatic. "Fanatics", said Santayana, "are those who redouble their efforts when they have forgotten their aim."

REMARKS BY THE CHAIRMAN

CHAIRMAN WOLMAN: I know you will all agree with me that we have listened this afternoon to four men who have presented fine and thoughtful papers. It will be worth the while of many of us to read and study these papers when they have been printed. Their authors went right to the point and wasted no words.

PART III

LABOR POLICY AND INTERNATIONAL ECONOMIC RELATIONS

INTRODUCTION *

LEWIS W. DOUGLAS, *Presiding*

President of The Academy of Political Science

President of The Mutual Life Insurance Company of New York

THE daytime sessions of the Academy have been devoted to a discussion of labor disputes and labor conditions and of the settlement of labor disputes.

To prepare addresses of the high quality that characterizes those which were delivered during the daytime sessions necessarily imposes an exaction on the time and energy of those who have prepared them; and to those who have so willingly borne this exaction and who have contributed so much to a discussion of one of the knottiest problems that this country now faces, I should like to express, in the name of the Academy, its gratitude and its appreciation.

This evening session of the Academy presumably—though one can never tell in this sort of a world what the future holds—will be devoted to a consideration of another facet of the problem that was presented during the daytime session and, in a certain sense and in its broader sense, by an extension of that discussion into international fields.

The eyes of the world are on America. The spectacle that we display of our industry or lack of it, of our ability or the absence of it to resolve our difficulties, to reconcile our conflicts, will

* Opening remarks at the Dinner Session of the Semi-annual Meeting.

profoundly enhance or detract from the influence that we may exert in the great task of molding a lasting peace. One of the most prickly problems, one of the most perplexing problems, internal in its immediate consequences, international in its ultimate effects, is that of formulating, shaping a national labor policy.

Happily for the Academy and its guests, a person long experienced in this particular field has generously consented to speak on the subject this evening. I have his curriculum vitae before me, but I shall not read it because it is longer than Plutarch's *Lives*. He is a person who has long played a distinguished part in the public life of this country. He has long been associated with the problem of labor disputes and with the settlement or the enactment or the drafting of legislation that has to do with the settlement of certain types of labor disputes.

He was one of the co-authors of the National Recovery Act of 1933. He was General Counsel for the National Recovery Administration. He was then Chairman of the Board of the National Recovery Administration which came to its ill-fated end by fowl play of a poultry dealer in Brooklyn as I recall. Not only because of his distinction in this field, but because of my own personal affection and regard for him, it is a pleasure for me to be able to introduce to you Mr. Donald Richberg.

REMARKS

MR. DONALD RICHBERG: As evidence of a consistent faith, sometimes questioned, let me begin by quoting from a speech which I made at an Academy dinner exactly sixteen years ago tonight. I then said: "The labor autocrat and the property autocrat are alike the foes of industrial coöperation. They are brothers under and in the skin."

Also, may I explain that when I speak, as I shall, about government tonight, I shall be referring to all officialdom—executives, legislators and judges. I shall not be referring to one political party because I do not believe that governing powers and duties are confided to a political party under our Constitution. I do believe that all public officials have an oath of public service superior to any party obligations—in a word, I prefer Washington to Wallace on the subject of effects of the party spirit.

A NATIONAL LABOR POLICY

DONALD R. RICHBERG

THE American government has been brayed in a mortar by labor organizations ever since V-J Day, but, to complete the biblical metaphor, its foolishness has not departed from it!

A major reason, as I see it, for having a government is, in the language of the Constitution, to "insure domestic tranquility," which presumably means: to preserve domestic peace and good order. A government is no longer respectable which sits idly by, twiddling its political fingers, while organized mobs intimidate and oppress its citizens. Our lawmakers and enforcers have been entrusted with adequate constitutional powers to protect the health, safety and general welfare of their communities; and when they cower before labor bullies who threaten to deprive cities, states, and even the nation of the necessities of life, disrespect for politicians rises to a record high!

For many years it has been the vaguely defined policy of the federal government, and of a majority of state governments, to regard industrial wage-earners as a peculiarly helpless and particularly deserving class of citizens. It has seemed necessary to favor them with privileges and immunities not granted to the rest of the people, to encourage them to organize for self-help, and to endow their organizations with exceptional powers of aggression and defense against conflicting interests. As a result, labor unions have now become the spoiled children of our national household.

There was an historical justification for this coddling policy in the decades when our industrial civilization was unfolding, with its manifold blessings and evils. When huge numbers of immigrants were pouring into industrial centers, seeking employment and accustomed to a low standard of living, the wages and working conditions offered to a host of workers did not

measure up to any reasonable standard of social justice. In that era the conviction spread that, through labor unions and collective bargaining, the wage-earners could obtain the power to improve their own conditions, and to keep labor free from both private oppression and governmental paternalism.

The bargaining powers of the labor unions were steadily increased on the assumption that then by peaceful negotiations, without striking, they would be able to obtain satisfactory agreements covering wages and working conditions. But the original design for peace has faded rapidly as labor leaders have learned how easily their power of collective bargaining can be transformed into the force of collective coercion. So now we have the growing menace of labor organizations which possess such great powers of economic and political coercion, unrestrained by public obligations, that the welfare of the entire country becomes more and more dependent upon the wisdom and moderation of labor leaders and their followers which are all too often conspicuously absent.

Messrs. Green, Murray, Lewis, Reuther and Thomas, for example, have all criticized one another more severely than I have; but they use language too strong for me to quote!

The fundamental need of today in a national labor policy is the imposition upon national labor organizations of a legal responsibility to exercise their powers through peaceful means, with due regard for the interests of the public. In formulating such a policy, let me say there should be no backward step to reestablish the unrestrained power of employers to fix wages and working conditions without regard for the immediate interests of their employees and the ultimate interests of all the people.

The workers must be left free to advance their interests by concerted efforts. But we must rectify the error made when labor unions were endowed with a legal right to disregard those limits of collective action which have always been found necessary, and which must be maintained, in order to prevent the mobilizing of any private force able to destroy our economic freedom and our individual liberties.

Permit me for a moment to pay my disrespects to those who rant and roar about an imaginary "absolute right" of workers to strike, and about the wickedness of any effort to compel workers by law to behave like good citizens.

First, I will quote from a unanimous opinion of the Supreme Court written by that notable friend of labor, Justice Brandeis: "A strike may be illegal because of its purpose, however orderly the manner in which it is conducted. . . . Neither the common law nor the Fourteenth Amendment confers the absolute right to strike."

Second, I will point out that the preservation of individual liberty and of an orderly society is possible only when government lays down rules of good conduct for all citizens and compels all citizens to obey them. The wage-earner has no superior virtue, nor any other valid claim, to be exempt from the obligations and compulsions of good behavior as defined and enforced by government. In another famous opinion, Justice Brandeis denied that there was "any constitutional or moral sanction" to the claimed right of industrial combatants to fight out labor disputes regardless of public injury. Then he stated a fundamental principle in these words: "All rights are derived from the purpose of the society in which they exist; above all rights rises duty to the community."

That may sound like old-fashioned law to the Neo-Marxian lawyers and teachers who advocate industrial anarchy as the only democratic alternative to the state socialism into which they are guiding us. But, even at the risk of being called old-fashioned, or of being denounced again by the vituperative triumvirate of Green, Murray and Lewis, I contend that the Brandeis doctrine is good law and should serve as a foundation stone for our national labor policy. To those who accept this doctrine it should be clear that above any right of a labor organization to advance the interests of its members there rises a public duty to refrain from using organized force and coercion to deny to others the personal liberty and economic freedom that are the birthright of all Americans.

One of the most persistent enemies of economic freedom down through the ages has always been a monopoly power. The development of such a power in labor organizations is comparatively recent. But in many ways, labor monopolies are more menacing to the general welfare than most of the earlier business monopolies.

Of course the anti-trust laws should not be applied to prevent workers from organizing to promote their interests by concerted

action not injurious to others. But the license, originally granted to labor unions to pursue their legitimate objects by lawful methods, has been transformed gradually into a privilege of using force and intimidation for the accomplishment of practically any objective of a labor union, regardless of how harmful to other private interests or to the public welfare. This makes it necessary now to define and limit by law the legitimate objects of a labor union and the lawful methods by which such objects can be attained.

Recently the Supreme Court pointed out that the monopoly established by the electrical workers' union in the sale of electrical equipment in New York City, if legalized, would "empower interested business groups to shift our society from a competitive to a monopolistic economy."

Nevertheless, the Court held, in substance, that, although a labor union could not conspire with a group of employers to accomplish such a result, a union could force an agreement from employers, one by one, which would produce exactly the same result. So the Court reached the following, unhappy conclusion: "This, it is argued, brings about a wholly undesirable result—one which leaves labor unions free to engage in conduct which restrains trade. But the desirability of such an exemption of labor unions is a question for the determination of Congress."

It is frequently argued that there is no need for federal labor legislation to prevent the misuse of labor power through economic coercion and physical force. Surely, however, no one will contend that the monopolistic powers of labor organizations, which arise out of a specific federal exemption from federal laws, can be corrected in any way except by a federal law. Many persons may feel that the federal exemption need not have been so liberally construed by the Supreme Court. But we can assume that the public opinion which is still opposed to what was once called "court-packing" will agree with the present opinion of the present justices: that the way to change the law announced by the Court is through an amendment of statutory law and not through a change in the personnel of the Court!

Now I shall turn to the flabby argument that lawlessness in strikes and the use of such violence and intimidation as accompany mass picketing should be dealt with by local governments

and not by federal labor legislation. Here we have a situation where, by federal law, labor organizations national in size and effect have been endowed with special privileges, exemptions and powers. These monstrosities organize and carry on strikes of national effect, and strikes in which, commonly, the intimidation and inevitable violence of organized mobs override the police powers of local government.

It is definitely the job of the federal government to cut down the powers and privileges which have been granted by federal law and which have been abused under the protections of federal law. It is definitely the duty of the federal government, which has undertaken to regulate an enormous field of interstate commerce for the benefit of organized labor, to complete the job by regulating organized labor for the benefit of interstate commerce.

It is all too plain, to anyone who has had a long practical experience in labor disputes and a professional knowledge of state and federal law, that the permanent improvement of labor relations, the preservation of industrial peace, and the fulfillment of their public responsibilities by both employers and employees wait upon a comprehensive revision of federal labor law.

There is not time and this is not the place to discuss the details of such a federal law. But, here is the condensed statement of a practical and workable National Labor Policy:

1. Outlaw industrial warfare by establishing a legal machinery for the peaceful settlement of all labor disputes of national concern.
2. Make it the legal duty of employers and employees to follow the legal program and to strive in good faith to adjust differences peacefully before taking any aggressive action against each other.
3. Protect the public against sudden or prolonged deprivation of the necessities of life, such as public utility services, because of an unsettled labor dispute. Require employers and employees, in such a case, to defer any aggressive action against each other until an emergency commission can make a quick investigation and report. Then, if this impartial judgment is not accepted, the government should be authorized to take control temporarily as it would in wartime. When the stoppage of supplies and services, essential to the health and safety of communi-

ties, is threatened, the government has the same duty "to provide for the common defence" as when we are threatened by a foreign foe.

4. Protect the freedom of the wage-earners to organize and bargain through self-chosen representatives and voluntary associations democratically organized and controlled. Also, protect the right to work by making it unlawful for any union to exercise exclusive bargaining power, or to maintain a closed shop, unless membership in the union is open on equal terms to all wage-earners affected, and the membership controls the union.

5. Define by law the legitimate objects of a labor union and the lawful methods of advancing those objects. Then make illegal any strike or other union activity which is carried on by violence, intimidation, or other unlawful means, or to accomplish an unlawful object.

6. Prohibit conspiracies in restraint of trade or competition, and monopolies of employment, whether promoted by labor unions or business men, either separately or jointly.

7. Define by law the separate functions of management organization and labor organization, in the prevailing forms of private enterprise; and then make it unlawful for members or representatives of one kind of organization to participate in, or otherwise to attempt to control, the functioning of the other kind of organization.

There are many major and minor problems that would be solved by the adoption of the national labor policy which I have tried to express in tabloid form. Every item of that policy has been the subject of federal or state legislation, administration or judicial consideration, to such an extent that there is nothing which is essentially novel, untried or theoretical in any single proposition. What would be novel would be to enact one comprehensive federal law which utilized all the information and experience which are available and was designed to protect the economic interests and the freedom of all elements of our society.

In place of that sort of law we have today a hodgepodge of uncoördinated, inconsistent laws, which, instead of establishing a rule of reason in economic conflicts, establish a rule of force.

They grant special privileges to organized labor to use such brutal and destructive force, with such complete irresponsibility, that vast injuries to countless persons and to the general welfare have been inevitable—and must soon become intolerable.

The remedy for this evil situation is simply for the government to enact laws based on those elementary principles of preserving peace and good order that have been universally utilized in the lawmaking of every land and time from the Code of Hammurabi down to the Charter of the United Nations. Laws of good conduct are not always well administered or enforced; but it is the duty, indeed the necessity, of any government to enact them and to try to enforce them. Otherwise a government will die, like a human being, from neglected internal disorders.

The Railway Labor Act, of which you have heard, has preserved peace on the railroads for twenty years, not because of exceptional conditions in that industry, but because it embodies the indispensable requirements of any law to preserve domestic peace.

The proposed Federal Industrial Relations Act, introduced by Senators Hatch, Burton and Ball, June 20, 1945, is based on the same principles and methods. No amount of honest criticism or abusive misrepresentation can obscure the fundamental soundness of that proposed act or the need for such a law.

After the last labor obstructionist has made his final plea for the perpetuation of special privilege and lawless force, such a labor law must be written before we shall attain industrial peace.

After the last confused social scientist has protested against trying to compel men to be good, such a labor law must be written in order to compel labor bullies to live under the same laws that prohibit other brutal-minded persons from extorting money by violence and intimidation.

Of course criminal laws do not stop crime; but they do limit the amount of crime, and prevent highway robbery from being a respectable profession—even when practiced by judicially protected teamsters.

A labor peace law will not prevent every hard employer from ever bulldozing his employees; nor will it prevent every tough labor boss from ever swinging a club. But, it will make certain

that in the long run the troublemakers will not profit by fomenting industrial warfare, by depriving the wage-earners of the full rewards of peaceful coöperation, and by despoiling the enterprises which support them.

I hope you will forgive me if I am too simple and blunt in my analysis of what is commonly regarded as a complicated problem, which should be handled as cautiously as an atomic bomb. It seems to me, to use the language of the late Justice Holmes: "At this time we need education in the obvious, more than investigation of the obscure."

That is my reason for avoiding many obscure issues as to how far government should go in the direction of socialistic controls and assistance, and how far it should preserve individualistic freedom and self-reliance. That is my reason for venturing to present to this enlightened audience such an obvious remedy for an obvious evil. That is my reason for calling attention to the neglected, but obvious, duty of the government to maintain domestic peace and good order, to preserve a free economy, and to protect the civil liberties of all the people.

REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: Mr. Richberg, for one brief moment I thought that you were about to say that your statement was being made at the expense of being called, not an honorable Conservative, but a Tory. It is interesting to observe how the meaning of words has become distorted with the passage of time. The word "Tory" is now used for the purpose of stamping an individual who believes in old-fashioned ideas. Originally, the word was first applied by the Irish government to a person on whose head the government had placed a price. Subsequently, during the campaign of Titus Oates, when he was heckled by an audience and knew of nothing better to say, he referred to those who were heckling him as Tories. From that time on, the word "Tory" has implied a curious fidelity and faithfulness to things that are old-fashioned and conservative.

Many of you doubtless may want to examine more carefully the program which Mr. Richberg has presented. Some will doubtless have some reservations, but there is no one who can withhold from Mr. Richberg the honor of possessing an intellectual and a brave mind. On behalf of the Academy, I would like to thank you, sir, for your expressions this evening.

During the course of the last month, there has been much in the press about conflicts involving a sovereign state in a remote part of the world. Happily for us this evening, among our distinguished guests is the Ambassador of that state. I should like to present to the audience, to the members of the Academy and to its guests, His Excellency, Mr. Ala, the Ambassador representing the sovereign state of Iran.

The nineteenth century was perhaps the longest stretch of time in modern history when the world was not rocked on its foundations by wars that swept across most of its civilized parts. Justice Holmes was not wholly inaccurate when he characterized it somewhat pessimistically as a "brief period of calm snatched from the tempestuous untamed streaming of the world."

That a new state of easy and confident peace is essential to the continued enjoyment of freedom, to the preservation of democratic political institutions—indeed, to life itself—we are now deeply convinced.

The war from which in a real sense we have not yet emerged and which wound itself around the globe, as a result of which the soil of many lands was drenched in blood and which produced such startling new applications of our accumulated scientific knowledge, reinforces this conviction with the irresistible weight of evidence derived from our own experience.

An easy and confident state of peace may not be established as the settled order of mankind, and the tempestuous untamed streaming of the world will not be confined and directed toward the pursuits of peaceful living, unless we here become—if we have not already become—fully conscious of the heavy responsibility that accompanies our unequaled might, and unless we resolve that that responsibility shall be fearlessly and honorably discharged.

No amount of force, however great, can long preserve the peace unless the environment in which it is established is favorable to its continuation. I would not press the doctrine of economic determinism to its breaking point, but I venture to suggest that the economic environment which prevails among us and all nations will profoundly foster or discourage the establishment of an enduring peace.

Happily, among our distinguished public servants there is a man who, through a long experience in the business community, and who, through his arduous and patriotic service during the dangerous days of the war, has acquired a broad knowledge of national and international economic affairs. He was one of those few who, when the clouds of war cast their long shadows over Europe, was first to join with that band of Americans who perceived clearly the peril that it extended to our own country.

To the task of arousing Americans to their danger he made a great contribution. After we plunged into the conflict, he was one of the most stalwart of our volunteers, and he served his country in many important capacities. But in none did he serve in as distinguished a fashion as in the important post he now holds. He is Assistant Secretary of State for economic affairs, and a member of the Secretary of State's staff committee.

One of the ablest men now serving the republic, he has generously agreed to address us tonight on the importance of international economic relations to world peace.

It seems to be my privilege to count among my friends those who so frequently address the Academy. Without burdening my privilege, I count it a distinction to be able to introduce to you a very great American, one of the ablest of all those now serving the republic, Mr. William Clayton.

THE IMPORTANCE OF INTERNATIONAL ECONOMIC RELATIONS TO WORLD PEACE

WILLIAM L. CLAYTON
Assistant Secretary of State

I FEEL very greatly honored this evening in this opportunity to discuss with you briefly certain of the aspects of the foreign economic policy of this country.

Any examination of the importance of international economic relations to world peace is at the same time, of course, an examination of the foreign policy of the United States. The success or failure of that policy will in the last analysis be measured by our contribution to the safeguarding of the peace. The foreign economic relations of the United States cover a very wide range of problems. Each new problem presses so closely on the heels of its predecessor that there is little space between for reflection. Nevertheless, day-to-day decisions must fit into a broad policy pattern and must contribute to the attainment of our ultimate purpose. Not only must we know where we want to go, but we must have a good idea of how we intend to get there.

Clearly the evaluation of economic policy in terms of its bearing on the maintenance of peace cannot proceed very far in the absence of at least a rough analytical framework. Perhaps such a framework can be stated very briefly in three propositions. We in the Department of State believe, first, that foreign economic policies, which give effect to the principle of equal treatment for all nations, will tend to eliminate some of the important causes of international friction and ill will and will, thus, tend to strengthen the peace. Second, we believe that the adoption of wise and farsighted economic policies will stimulate world trade and prosperity and that prosperity itself is a direct bulwark of peace. Third, and perhaps most important, we believe that a wise economic policy will contribute to prosperity, that prosperity is the most congenial economic atmosphere for

the growth and spread of democracy and the institutions of freedom, and that the peace is safest in the hands of free men.

Let us now take up these propositions in order.

The first of these is the proposition that discriminatory economic policies can undermine friendly relations between states and weaken the structure of peace. Discrimination in this sense can take a multitude of forms. It can include preferential tariff systems, favoritism in the allocation of import quotas or the use of exchange controls to the disadvantage of certain foreign countries. It can include the denial by a colonial sovereign of equality of access to the trade of raw materials of its colonies. It may be overt or it may be concealed. There are many ways of achieving discriminatory purposes in regulations or legislation which appear on their face to be of general applicability.

Even though the economic effect of a particular act of discrimination be slight, the act may have consequences entirely out of proportion to its real significance. Acts of economic discrimination often provoke reactions in terms of national pride and honor especially when nationalistic feelings have previously been aroused by other causes. A colonial sovereign which uses its political powers to deny to other nations the right of equal access to the trade and raw materials of dependent areas may do serious injury to the economy of its neighbors.

The economic effects of imperialism may not be inherently incompatible with the interests of peace, but imperialism can be used to undermine the peace when the sovereign obstructs trade and economic relations generally between the dependent areas and other nations. In the sense in which the terms are customarily used, no nation is really a "have" nation as opposed to a "have not" nation unless it obstructs access by other nations to its markets and raw materials. Likewise, no nation is really a "have not" nation, no matter how barren its territory may be of important natural resources, unless it is denied the right of access on a basis of equality to the trade and raw materials of other areas which are more richly endowed.

This access may be denied in several ways. If nations rich in essential raw materials raise their tariffs on imports unreasonably, the purchase of such raw materials becomes difficult for countries which must have them. It is not inevitable or even natural that nations richly endowed with raw materials should

be rich while nations poorly endowed with such resources should be poor.

Nature often provides compensations for such differences; such compensations may and often do take the form of special skills of the so-called "have not" peoples. When a so-called "have not" nation enjoys equal rights on reasonable terms to economic intercourse with an area rich in natural resources, it has little further to gain in the way of economic advantages by forcing the area into its political control.

If the principle of equality of access on reasonable terms to the trade and raw materials of the world were universally practiced, the appetite for the expansion of sovereignty so productive of international friction would largely disappear. This, we believe, is an important lesson for economic policy. Whether discrimination has its major impact on values as incalculable as national price or as concrete as the standard of living, the nation discriminated against becomes a little more likely to regard itself as underprivileged and oppressed.

When such views are popular, there are always leaders who will cry for military action to obtain justice and there are always followers who will listen. It may be doubted if the denial of equality of treatment in international economic matters could itself ever lead directly to war, but it can contribute to the creation of an international climate which is more congenial to war and it can become one of a complex of factors which do lead directly to war.

Let us turn now to the second proposition. We have said that the adoption of wise and farsighted economic policies is capable of stimulating world trade and prosperity and that prosperity itself is a bulwark to peace. As soon as the proposition is stated, however, it becomes apparent on the simple historical grounds that prosperity alone cannot assure permanent peace. Within the limits of modern history, wars have occurred in good times and peace has been preserved in bad times. But economic well-being, rising standards of living, expanding opportunities for work and trade do tend to create a psychological atmosphere in which aggressive impulses are less likely to become dominant.

One can hardly put it better than it was put by Cordell Hull in 1937. "Peoples that are employed and prosperous are not

easily incited to either internal or international strife, but peoples living in want and misery come to hold life cheaply and stand ready to gamble upon the use of force." People do not differ much from one country to another or from one age to another in the universal desire to better their condition. If they are able through the peaceful channels of production and trade to secure for themselves a gradual improvement of their mode of living, they are more likely than otherwise to devote themselves to the cultivation of the arts of peace. If, however, the economic environment is such that they are thwarted in their efforts to improve their lot, they may and often do seek outlets for their ambitions in conduct of a more violent sort. If they conclude that the obstacles to their improvements and advancement are internal, they may pursue their objectives in ways that lead to internal unrest or even a civil strife. If, however, they believe or are led to believe that their distress arises from unfriendly external action, their passions may take them down the road to military adventure and war.

The third proposition, which we regard as the most important, is closely related to the second. We believe that a wise economic policy can contribute to prosperity, that prosperity is the most congenial economic atmosphere for the growth and spread of democracy and the institutions of freedom, and that the peace is safest in the hands of free men.

Democracy is in many ways a fragile form of political organization. This is especially true of young democracies where the institutions of freedom are not imbedded in a solid foundation of habit and tradition. For a democracy to function effectively, there must be an atmosphere of mutual restraint, a disposition to compromise differences, and a willingness to tolerate opposing views.

In times of economic crisis, internal cleavages are widened, political conflicts arouse deep emotions and bitterness, and the inclination to compromise in order to preserve free government is weakened. That prosperity can contribute to the strengthening of the democratic order is much more than a vague hypothesis. All of us within our own lifetimes have seen democracies fall apart under the pressure of economic crisis.

When a choice must be made between civil liberties and democratic rights on the one hand and the promise of a decent stan-

dard of living and economic security on the other hand, there are always many who will choose the latter, although it may clearly entail the loss of the former. When stomachs are empty, the rights of free citizenship are regarded as small consolation.

In every democracy there are always demigods who will come to the fore in periods of economic crisis to bargain the promise of economic security for the surrender of freedom. It was no accident that the successes of the Nazi Party at the polls when German elections were still free showed a striking correlation to German unemployment figures.

If economic well-being is a factor of paramount importance in the defense of democracy, and we believe it is, then how does the defense of democracy relate to the preservation of peace? The evidence is within reach of anyone whose memory extends across the tragic years of our century. Democracies, by their nature, are not only less able to organize and launch aggressive war, but also less likely to desire war. It is virtually impossible to prepare for aggression without exercising a degree of ruthlessness in the control of opinion and information which is utterly incompatible with the spirit of democracy. Even if it desired war, no government of a democratic state could force its people into a solid, united, obedient phalange without first subverting the people's rights. Simply from the point of view of technical aspects of military preparation, democracy and aggression do not mix.

More important, however, is the fact that common people, by and large, abhor war. Wherever it is within the power of the common man to decide, we may be reasonably certain that he will choose peace. The common man never wins a war. When rulers think of aggression in terms of national power and prestige, the reward of the common man will probably be conscription, mud and death. When the national price is said to be markets and riches, the common man generally reaps ration cards, ersatz food and inflation. So long as the organs of public information and opinion are free, and so long as the people control the government and not the government the people, we shall not be misled if we trust the people to choose peace.

In the words of Sir William Beveridge, "To make the world safe for democracy does increase the chances of its being a peace-

ful world for the common man who neither has nor thinks he has anything to gain by war."

Prosperity, then, is a bulwark of peace both as a direct deterrent to war and as an ally of democracy. In the presence of this framework of ideas, let us turn now to questions of policy, to the question of what we should do and what we can do to stimulate prosperity here and abroad.

Our problems are of two kinds. There are immediate problems relating principally to the tasks of making good the material ravages of war. There are longer-run problems involving the organization of the world economy to achieve the maximum output of goods and services and the elevation of living standards over the world. The two are by no means independent of each other.

If we should bungle the job of solving the economic problems of the transition from war to peace, we shall certainly delay and we may even lose the opportunity to organize the world economy for enduring prosperity. In the eyes of people who lack a roof over their heads today, the construction of a substantial dwelling for use in the future will have to wait.

The world is now in the cruel aftermath of a ghastly war. Each day brings fresh reports of suffering and misery over wide areas, new accounts of hunger, disease and the still spreading ravages of war. In Europe and Asia, many millions of people are right now on the very verge of starvation. Throughout these continents, fuel and raw materials to run the factories and fertilizers to restore the land are dangerously scarce.

Many countries are caught in a vicious circle. Without food, coal miners cannot dig coal. Without coal, factories cannot produce agricultural machinery and fertilizers. Without farm machinery and fertilizers, farmers cannot produce food. If we want to ignore these problems or to underestimate their importance, we should do so at our peril.

Neither peace nor prosperity can be secure so long as great areas of the world are submerged in the economic morass of post-war disorganization. Assistance from the United States and from all other countries in a position to help is the main source of hope to the areas which have been devastated by war. President Truman in his Army Day speech at Chicago last Saturday set the keynote of our policy:

The United States is in a position to help; we are helping now and we shall continue to help. We shall help because we know that we ourselves cannot enjoy prosperity in a world of economic stagnation. We shall help because economic distress anywhere in the world is a virtual breeding ground for political upheaval. And we shall help because we feel it is simple humanitarianism to lend a hand to help our friends and our allies who are convalescing from wounds inflicted by our common enemy.

As evidence that we are fulfilling the President's pledge is the fact that a larger tonnage of supplies now leaves our Atlantic ports each month than was shipped from the same ports in the peak month of the war. The products of the American farms and factories are moving abroad through many channels to aid the sick and hungry, to plant the land and rebuild the cities, and to start again the wheels of production and trade. They are moving through the machinery of UNRRA, through direct procurement here by foreign governments and importers, and under reconstruction loans made by the Export-Import Bank. Goods will begin to move before long under credit extended by the International Bank for Reconstruction and Development, to whose treasury the United States is the largest contributor.

Let us turn now to the longer-run problems, to the problems of employing foreign economic policy to expand trade and promote prosperity. Prosperity abroad is dependent upon the state of foreign trade to a much greater degree than many of us realize. For many countries, thriving foreign trade means prosperity and stagnant international trade means severe distress. Several countries normally derive more than a quarter of their total national income from their foreign trade. Some countries derive more than half of their income from foreign trade. The figures run all the way up to 67 per cent, which is the figure for Norway. It is not an exaggeration to say that economic well-being and political stability abroad will depend largely in the years to come on the state of international trade.

Our unparalleled economic strength and our position in world trade demand that the United States take the lead in an effort to put the trade of the world back on a healthy basis. Great Britain, leader of the greatest international trading area in the world, is prepared to assume full partnership with us in this high

enterprise, provided we can assist her throughout the next critical three- or four-year period of reconversion from war to peace.

To this end, we have negotiated a financial agreement with the United Kingdom, an agreement which ordinarily is referred to, popularly, as the British Loan. So much is that true, that I think most people believe that all that is involved is that we will write a note for 3 billion 750 million dollars, and pass it over to the United Kingdom, who will sign it and give it back to us. Then we will give them a check for that amount and that will end the matter in more ways than one.

But I assure you there is a great deal more to it than that. It is a highly important agreement with mutual considerations on both sides and we who had a part in negotiating it feel that the considerations which we got are worth more than what we gave.

This agreement is now before the Congress for approval. We consider it the key to our entire foreign economic policy. If that policy is to have a fair chance of success, it is essential that the Congress approve this agreement. If world trade is to become a highway of peace, we and other peace-loving nations must forswear the use of the tactics of economic nationalism which turned international economy into a jungle in the period between the two World Wars.

We must not again permit trade to be strangled in a web of excessive tariff quotas, embargoes, preferences, subsidies, licenses, exchange controls, clearing agreements, barter deals, discriminations, and all these various devices that the world learned so well how to use for the purpose of restricting and limiting international trade in the period between the two World Wars.

The Hawley-Smoot Tariff in 1930, the highest in our history, was passed in sublime disregard of its effect on foreign countries and, indeed, of its eventual effect on our own country. This tariff act caused serious injury to foreign economies abroad, and numerous and heavy reprisals and retaliations were leveled against us by many foreign countries.

The trade practices which prevailed in the 1930's have been aptly described as "beggar-my-neighbor" policies. Each nation tried to improve its own position at the expense of its neighbors. The net effect of these practices was to depress living standards,

to engender ill will among nations, and to contribute to the political and economic instability of the decade.

International trade will contribute to prosperity and well-being to the extent that it is organized within a framework which will advance the international division of labor and minimize trade discriminations. A plan to establish such a framework is contained in our "Proposals for Expansion of World Trade and Employment" which were worked out in preparation for the forthcoming World Conference on Trade and Employment.

The proposals represent what we believe to be an effective and realistic framework for concerted international attack on the restrictions and discriminations which hobbled world trade before the war. We would achieve in the field of international trade what the Bretton Woods Agreements should achieve in the field of monetary and exchange problems. In fact, the "Proposals" are designed to dovetail with and to supplement the Bretton Woods Agreements. The "Proposals" contemplate the establishment of an International Trade Organization which would be tied into the United Nations through the Economic and Social Council, and the adherence by all members to a detailed charter which would establish rules of trade policy and conduct.

These are the principal lines of action which should be followed in the interest of prosperity and rising standards of living for all peoples wherever they are. The position of responsibility and leadership which the United States occupies in the world demands that we vigorously pursue the achievement of these ends. Not only are they good in themselves, but their realization will improve the chances that this peace will endure.

REMARKS BY THE CHAIRMAN

PRESIDENT DOUGLAS: Mr. Clayton, you have honored us by so generously speaking to us this evening, and, in the name of the Academy, I would like to express our appreciation. You have given us the facts. This reminds me of a political campaign in England during the last quarter of the last century in which Gladstone was addressing his constituency. During the course of his address, he was interrupted by an old and disgruntled lady sitting at the back of the audience.

She arose and put to him a rather embarrassing question, to which he replied, "Madam, I have given you the facts; only God can give you understanding."

Mr. Forrester, a distinguished citizen of this community, was to have addressed the Academy this evening. Unhappily for him and for us, he was bedridden by one of the diseases now sweeping the country and, in a whispering voice, he told me this morning over the telephone that he was unable to attend because he had been so afflicted.

I shall not attempt to act as a substitute for Mr. Forrester, for I do not have the elegance of expression, nor do I have the knowledge that would equip me so to act, but since he was to speak on the relationship between American military power and permanent peace, I hope you will grant me your indulgence for a few moments if I bring this meeting to a close by making a few observations, unknowledgeable and without a sufficient amount of military knowledge and military information to be of substance.

It has been asserted this evening that no amount of force could long preserve the peace unless it was established or had been established in an environment, an economic climate, that was favorable to its continuation. To reverse the syllogism, I may say that no favorable environment can long preserve the peace unless there be that amount of force necessary to preserve it.

There are doubtless men who have an intellectual conviction about the conditions in Europe and a view of our responsibilities arising out of them, but few can fully comprehend what has taken place unless they have had the opportunity intimately to see, to hear, to feel that which has occurred.

Europe, the sanctuary of western civilization, lies in ruins. I can assure you, because of an extraordinary privilege that I enjoyed, extending over several months, that throughout the vast area extending from the Vistula to the pillars of Hercules, there has been a visitation of desolation and destruction unparalleled in human history. Nothing equals it.

The recordings of the chronicles of mankind have nothing that can compare with the absolute destruction that prevails throughout that large part of one of the most significant continents of the world. It lies in shambles not merely in a materialistic sense, for the shambles extend to moral behavior, to spiritual values, to political structures, and to economic activity.

Means of communication have been eradicated. The transportation system has been destroyed. The old order of political behavior has been extinguished. A new code of moral behavior is beginning to appear, and the old basis of international relationship has been replaced by a new and a primitive one. The sanctuary of the cultivation of western civilization is no more. That which was no longer exists.

The front lines of defense on which this country once unwittingly and, in the opinion of a great many of us, reluctantly relied, have been demolished. The front lines of defense that twice within the short span of a quarter of a century provided the time in which we might become prepared have been eradicated. We are today the front line of defense; and our lines of defense extend around the world.

To the United Nations, we pin our faith and our hope. We expect that it will grow to a stature sufficiently adequate to maintain the peace of the future; but unless there be associated with it directly or indirectly that amount of power necessary to preserve order throughout the world, it will, I venture to assert, be another of the great disillusionments of mankind. This time there may not be another chance.

We are, therefore, in a world in which the old defenses of our own security have been eradicated. We are, therefore, the guardians of the peace and the watchmen of the night. Under these circumstances, we would be committing folly of the highest order were we not to maintain that might which we have acquired at that point necessary to re-enforce the United Nations in order that it may grow to the stature necessary in its own name and in its own right to preserve the peace. We would be committing folly of the highest order were we not to give every symbol of our determination to engage wherever it may be necessary in preserving the peace.

We would be committing folly of the highest order were we not, for example, to extend the Selective Service Act for as long as it may

be necessary to give to the world that symbol of our resolution. We would be committing folly of the highest order were we not so to establish our air forces, our ground forces, and our naval forces at a sufficient strength to place the world on notice that this time we are prepared to intervene wherever on the far shores of the seven seas it may be necessary in order that the call to arms may not once more resound around the world.

This is a sacred and a solemn responsibility for our own generation and for all of the generations that follow after us. Should we shirk it, as I am confident we will not, but should we shirk it, we will be repeating, after the lapse of only twenty-five years, the same betrayal of the human race that we committed a quarter of a century ago. That must not again stain the escutcheon of the United States.